PHILLIPS PETROLEUM COMPANY 1980 ANNUAL REPORT

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Corporate Profile

Phillips is engaged in petroleum exploration and production on a worldwide basis, and petroleum marketing and refining in the United States. It also produces and distributes chemicals in the United States and has production facilities or sales offices in 27 other countries. Since the early 1970s the company has been developing businesses in other energy fields, including coal, uranium, oil shale and geothermal power. In 1980 the company's operating units were realigned into five groups. The activities of three of these groups—Exploration and Production, Gas and Gas Liquids and Minerals—are summarized in the energy resources section of this report. The Petroleum Products section covers activities of the Petroleum Products group and the Chemicals section those of the Chemicals group.

At the end of 1980 Phillips employed 32,400 people, had 119,900 stockholders and assets of $9.8 billion. The company's products and processes were licensed in 29 countries.

Phillips is headquartered in Bartlesville, Okla., where it was founded in 1917.

About the Cover

Workhorse of the oil field, the drill bit is symbolic of Phillips stepped-up program to find and develop petroleum reserves in the United States and around the world. Connected to a string of rotating pipe, the bit chews its way through layers of rock beneath the earth's surface toward potential petroleum-bearing formations. The bit on the cover is one of 50 used to drill four miles below the marshlands of Louisiana in the search for natural gas.

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FIRST QUARTER 1980

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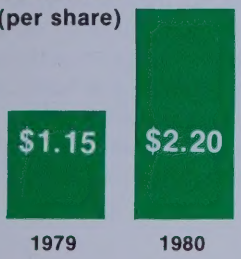
EARNINGS (per share)



REVENUES (billions)

To The Owners of Phillips Petroleum Company:

Estimated first quarter earnings were $338.6 million, or $2.20 a share, on revenues of $3.38 billion, compared with 1979 first quarter earnings of $177 million, or $1.15 a share, on revenues of $1.99 billion.

In the first quarter of 1980, income taxes were $583.3 million, 72 percent more than earnings and 153 percent higher than in the same period a year ago. Capital expenditures totaled $337.6 million, 34 percent higher than a year ago.

If the proposal under consideration by the Norwegian government to increase Norway's income taxes should be adopted effective Jan. 1, 1980, first quarter earnings would be restated to reflect a reduction of approximately $55 million, or 35 cents a share. The Norwegian government is expected to act on the tax proposal in May.

The company expects 1980 earnings to be higher than they were last year, but we do not expect our performance to be as good in each of the remaining three quarters as it was in the first quarter. Earnings for 1980 will be affected by the "windfall profits" tax, which became effective March 1. Higher taxes, both in the United States and abroad, and lower profit margins in the company's domestic refining and marketing operations and chemicals activities are expected to adversely affect earnings during the last nine months of the year.

The increase in Phillips 1980 first quarter earnings can be attributed to higher worldwide prices for petroleum liquids and natural gas, higher petroleum liquids and natural gas production in the Norwegian North Sea and higher prices for chemicals.

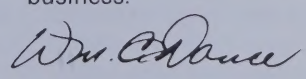
Most of the company's earnings improvement came from overseas operations, which rose to $188.7 million from $56.6 million.

Domestic earnings rose to $149.9 million from $120.4 million. Higher prices for petroleum liquids and natural gas, as well as improved chemicals earnings, were partially offset by significantly lower results in Phillips refining, marketing and transportation operations.

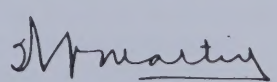
On a worldwide basis, the company's crude oil production was 10 percent higher during the first quarter of 1980 than for the same period a year ago. Natural gas liquids production was 21 percent higher and natural gas production declined slightly.

Oil production in the United States was 2 percent higher. In the company's operations in the Norwegian North Sea, production of both oil and natural gas was 35 percent higher.

Phillips 1980 first quarter earnings represented a return of 10 cents on each dollar of revenue. Measured by return on average total assets, these earnings equaled 15 cents for each dollar the company has invested in its business.



President and
Chief Executive Officer



Chairman

May 23, 1980

Bartlesville, Oklahoma

THE WORLD OF PHILLIPS

DOUCE BECOMES NEW CHIEF EXECUTIVE OFFICER

Wm. C. Douce has been named president and chief executive officer by Phillips board of directors. For the past six years he has been the company's president and chief operating officer.

The directors took the action upon the recommendation of W. F. Martin, the company's chairman, who has been chief executive officer for the past seven and a half years.

Douce joined Phillips in 1942 and in the early part of his career was associated with various activities of the company, including petroleum refining, plastics and rubber chemicals. In 1969 he became a senior vice president and a year later was elected a director of the company.

In 1971 Douce was named chairman of the executive committee and an executive vice president, a position he held until becoming the company's president and chief operating officer in 1974.

Douce is a director of the American Petroleum Institute, the First National Bank of Bartlesville and the First National Bank and Trust Company of Tulsa. In addition, Douce is a member of the boards of trustees of Tulsa University, the University of Kansas Endowment Association, the Oklahoma Safety Council and the Jane Phillips Episcopal-Memorial Medical Center in Bartlesville.

Martin, whose normal retirement date is March 1982, will continue as a director and chairman of Phillips board of directors. He will remain active in company affairs, but the change will allow him to devote more time to board-related matters and important issues that may arise from time to time relating to Phillips and the petroleum industry in general.

"The change will also facilitate the further development of Phillips personnel with high potential to assure continuity of strong management over the long term," Martin said.

Martin, who began his career with Phillips in 1939, has been active in industry, trade associations and other activities for many years. He is a member of the board of directors of the National Association of Manufacturers, a director of the American Petroleum Institute and a member of its executive and management committees. He is also a member and chairman of the agenda committee of the National Petroleum Council and a director of the Bank of Oklahoma in Tulsa and the First National Bank in Bartlesville.

LEADED PREMIUM GAS TO BE DISCONTINUED

Phillips has stopped making leaded premium gasoline. The fuel will be available only until current supplies are exhausted. The company said it could no longer afford to make and distribute leaded premium because of low demand. Since 1971, most vehicles have been designed to run on lower octane unleaded gasoline.

NEW SOLAR ENERGY VENTURE PLANNED

Phillips and Acurex Corporation of Mountain View, Calif., are teaming up to build and sell large-scale solar energy systems. The systems will be sold to domestic and foreign utilities and industries.

Phillips has purchased 550,000 shares of Acurex, a 30 percent interest in the firm, for $8.8 million.

Acurex, a major solar energy contractor for the U.S. Department of Energy, built the world's largest solar thermal electric plant at Coolidge, Ariz.

INVESTIGATION CONTINUES INTO NORTH SEA ACCIDENT

An investigation is underway to determine why a floating dormitory with 212 workers aboard capsized March 27 in the North Sea, claiming 123 lives.

The French-built, 10,105-ton vessel is being inspected by its owner, the Stavanger Drilling Company, representatives of the Norwegian government and several insurance companies at a fiord near Stavanger, Norway.

The vessel was providing worker accomodations in the Ekofisk area of the North Sea, which Phillips is developing in partnership with other oil companies. During a storm, one of the five legs providing flotation for the vessel apparently collapsed, causing it to tilt and then tip over a short time later.

Eighty-nine people were saved by a massive air and sea rescue effort.

PHILLIPS-GREAT BASINS STUDYING MERGER

Phillips has announced plans to acquire Great Basins Petroleum Co. of Los Angeles. The approximate purchase price is $196 million. The sale is subject to execution of a definitive merger agreement, the approval of Phillips board of directors, compliance with various regulatory requirements of the U.S. and Canadian government and approval of Great Basins' shareholders. Great Basins is engaged primarily in oil and gas operations in the United States and Canada. It has extensive natural gas reserves in Canada.

OIL DISCOVERED OFF IVORY COAST

Phillips plans to drill additional wells off the Ivory Coast of West Africa following the discovery of oil in one well about 13 miles offshore in approximately 1,200 feet of water.

The discovery is in an area of more than three million acres which the Phillips consortium is developing under a production sharing contract with the Republic of The Ivory Coast.

The consortium includes Phillips, the national oil company of The Ivory Coast, Petroci, AGIP Spa, and Sedco of The Ivory Coast, Inc.

Production tests produced oil at rates ranging from 2,900 to 4,900 barrels a day and natural gas at rates of 1.25 million cubic feet to 2.1 million cubic feet a day.

Additional drilling will be carried out in water depths from 300 to 2400 feet.

PETROLEUM RESERVE ESTIMATES LOWERED

Revised estimates have reduced Phillips year-end 1979 worldwide petroleum reserves by approximately 5 percent.

The estimates do not include amounts which may be produced by enhanced recovery techniques.

New worldwide reserve estimates take into account updated estimates of peak oil production rates and oil and gas reserves at Phillips Greater Ekofisk Area fields in the Norwegian North Sea.

Phillips has begun work on a pilot project using water injection designed to further evaluate the merits of enhanced recovery techniques at Ekofisk.

REPORT ON THE 1980 ANNUAL MEETING

At the annual meeting held on April 29 in Bartlesville, Okla., 80 percent of the company's outstanding shares were represented at the meeting.

The stockholders elected 15 directors — Michael N. Chetkovich, Wm. C. Douce, L. H. Johnstone, E. Douglas Kenna, C. M. Kittrell, Melvin R. Laird, Carol C. Laise, W. F. Martin, David B. Meeker, William Piel, Jr., W. A. Roberts, J. Lucian Smith, W. Clarke Wescoe, Dolores D. Wharton and Francis M. Wheat.

Action on Proposals

Two proposals which were described in the proxy statement were voted on at the meeting.

The stockholders approved the company proposal to designate Arthur Young & Company as independent public accountants for the 1980 fiscal year.

The stockholders did not approve the stockholder proposal requesting that the company promptly dispose of its interest in a South African carbon black company if certain conditions are not met by Dec. 31, 1981.

Two additional proposals not included in the proxy statement were presented by a stockholder at the meeting. The proposals, which would call for stockholder involvement in the determination of the company's compensation practices in certain instances, were not approved by the stockholders.

OPERATING HIGHLIGHTS

At the company's annual meeting, President Wm. C. Douce made the following comments:

The challenge of the 1980s is clear: The United States must move forward over the next 10 years to become more energy sufficient, less dependent on other countries.

Your company is making the greatest effort in its history to help meet that challenge.

— This year we authorized the largest capital investment budget ever — $1.9 billion. Ninety percent of that budget will be spent on energy projects worldwide, with about 60 percent earmarked for the United States.

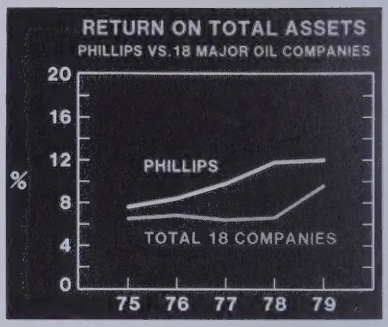
— We're intensifying our search for new oil and natural gas reserves across the North American continent, as well as in the more secure areas of the world.

— We're using new, sophisticated technology to increase oil and natural gas production from older fields.

— We're improving our refining capability to handle the more plentiful — but more difficult to refine heavier types of crude oil.

— We're increasing our plant capacities to supply consumers with greater quantities of high-quality petroleum and petrochemical products.

— And we're developing the fuels of the future, coal, uranium, and oil shale. And we'll soon be moving into solar energy through a new joint venture. These are fuels that must supply a larger portion of our energy needs if our country is to become more energy independent. As we move ahead to develop additional energy supplies, there will be risks involved, financial risks and personal risks. Just recently, we've had two sobering reminders of those risks: The tragic accident in the Norwegian North Sea, which claimed many lives. And earlier this year, an explosion and fire at our Borger refinery, which did extensive damage to property, but, thankfully, no serious injury to employees.



Phillips return on assets compares favorably with the petroleum industry.

Every effort will continue to be made to see that such risks are minimized as we move further into the pioneering ventures that will be necessary to our country's energy resources.

Here are some details about our current efforts:

- There is still a great deal of oil and natural gas to be found in this country, much of it offshore. In addition to our activities in the Gulf of Mexico, we've now expanded our offshore exploration to new leases in the waters off southern California, in Alaska's Beaufort Sea and off the New England coast. We're busy drilling onshore, as well, in such spots as the Rocky Mountain Overthrust Belt, which extends from Canada through New Mexico. It is one of the most promising onshore areas in the country.
- In addition to exploring for new oil reserves, Phillips is re-evaluating older, producing fields, where production has been declining. In our West Texas fields, we've been able to halt the normal drop-off in production through development drilling, secondary recovery programs and by working over old wells. We're also using expensive

chemical methods to coax more oil out of older fields. At Smackover, Ark., for example, technicians are injecting gelatin-like chemicals into old wells — just one of several projects where the technology of our research and development team is being used to increase oil production.

• Another of our major goals has been to produce more natural gas liquids in the United States, and today Phillips is the largest producer of natural gas liquids in this country. Our natural gas liquids plant under construction near Giddings, Texas, is one of 24 new plants that have been built or authorized. These plants use extremely cold temperatures to extract greater quantities of liquids from natural gas.

• We're also working to develop fuels that will supplement petroleum in the coming years. One of these fuels is lignite coal. Our first mine is scheduled to be in production near Shreveport, La., in 1984. Our long-range goals call for opening one mine a year from 1985 to 1995.

One of the country's greatest energy resources is oil shale. Phillips has an interest in an experimental oil shale recovery project and holds extensive oil shale reserves in Utah, which we expect to start developing in about four years.

• Although companies like Phillips are investing heavily in developing U.S. energy resources, the fact remains that this country will have to depend on imported oil for some time to come. We have exploration interests in 21 countries, from the South China Sea to the Mediterranean. In Canada, we have two wells now being drilled in the northern Alberta foothills. Incidentally, Great Basins Petroleum Company — the company we're negotiating to purchase — has extensive natural gas reserves in the Alberta area. Farther north, in the Canadian Arctic Islands, we've participated in three significant gas discoveries. Further drilling is under way to evaluate the commercial potential of these reserves.

• The Greater Ekofisk Development in the Norwegian North Sea continues to be the focal point of our natural resources activity overseas, accounting for about a third of our worldwide oil and natural gas production. In 1979, the last three fields were brought into production. In the first quarter of this year, crude oil and natural gas output, from the seven-field area, were both up 35 percent over a year ago.

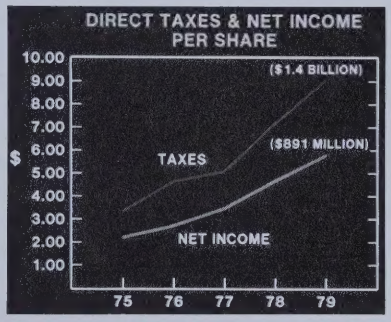
• In the United Kingdom sector of the North Sea, we're developing the Maureen Oil Field, 160 miles off the coast of Scotland. By using new drilling and production technology, Phillips expects to save a year and a half in bringing the Maureen field into production.

• Our newest oil discovery is located in a deep-water area off the Ivory Coast of Africa. We are encouraged by this discovery because oil from the well flowed at rates ranging from about 3,000 to 4,900 barrels a day, when tested at various intervals. Phillips has substantial acreage holdings around the discovery. We'll be drilling several other wells to determine the extent of this new reserve.

Elsewhere in Africa, Phillips is producing oil from 19 fields in Nigeria, while continuing an active exploratory program. Plans are also being made to develop our significant natural gas reserves in that country. Phillips is leading the development and design of a huge liquid natural gas plant. The liquefied gas would be moved by tankers to European and U.S. markets.

• Early this year, a partnership we're involved in discovered oil in the Northeast Kalimantan area of Indonesia. Additional discoveries, like this one, plus new recovery equipment installed at our existing fields, should increase our Indonesia production from its current level.

• The rapid increase in world oil prices is encouraging expensive exploration required in deep water, and Phillips is one of the leaders in this new energy frontier. One of our drillships is operating in some 3,000 feet of water off the coast of Australia.



Domestic and foreign taxes, as in years past, exceeded earnings in 1979.

• In order to deliver this imported oil to market, Phillips has acquired six new tankers that will transport foreign crude to the Sweeny, Texas, refinery. These medium-sized tankers can carry about 400,000 barrels, or almost 17 million gallons of crude oil. And realizing that our country must depend on imported crude oil for some time to come, we're improving our refineries to handle those foreign crudes. We're modernizing and expanding the facilities at Sweeny to enable us to refine almost all the types of crude oil available in the world. This project is expected to be completed by the end of the year.

• Phillips continues to be as interested in conserving energy as we are in finding and producing it. Our researchers have developed a compact, portable plant for repurifying waste motor oils into high-grade products. Plants of this

kind — which can easily be transported by rail — have been sold in the United States, Canada and Mexico.

In our expanding chemicals operations, one of the fastest growing markets for our high-density polyethylene is for plastic pipe, including the large-diameter polyethylene pipe used in municipal sewer systems. A Phillips subsidiary — Driscopipe — is now building its seventh plant to manufacture polyethylene pipe.

Our non-woven polypropylene fabric, called Petromat, is gaining wide acceptance as an underlining for roads, runways and bridges. When Petromat is applied to highways, it reinforces the paving, and makes the road more resistant to wear. Our production of non-woven fibers reached an all-time high last year.

In our overseas chemicals activities, we are building a new 22 million pound sulfur chemicals plant in Belgium. It's scheduled to be completed this year. One of the uses for these sulfur compounds is in the production of agricultural chemicals. Currently we have seven major chemical plant expansions under way or authorized.

Stronger earnings have enabled Phillips to step up its efforts to find, develop and deliver more energy to consumers. Earnings for 1979 totaled $891 million or $5.77 a share, compared to $718 million or $4.66 a share in 1978. Earnings in 1978 included a one-time gain of $170 million or $1.10 per share from the sale of our stock in Pacific Petroleums Ltd. of Canada.

In our petroleum operations, which include oil and gas exploration and production, refining, marketing and transportation, earnings have risen steadily, reflecting expanded production and higher world prices. Our chemicals business continues to be an important contributor to company earnings, accounting for about 20 percent of net income last year.

The question frequently arises: How much profit do oil companies make on a gallon of petroleum products? The answer for Phillips is 3.9 cents for 1979. That's what the company made on each gallon sold in our domestic operations after subtracting all costs and taxes associated with producing, processing and distributing petroleum products.

Last year — as in years past — foreign and domestic taxes exceeded our earnings. Last year, our tax bill was $1.4 billion, or a little over $9 a share. That compared to net income of $891 million, or $5.77 a share. You can see how government is a prime beneficiary of oil company operations.

In 1979, we spent almost $1.5 billion on capital programs, 55 percent more than in 1978. This year, capital expenditures will be even higher.

Our natural resources spending has grown substantially. Spending for petroleum products was up considerably over 1978, while our investments in our chemicals operations have remained steady.

Rebuilding America's energy security is going to be a monumental task. The time is right for meeting that challenge.

Today, we have the beginning, the first steps, toward a national energy policy.

Today, I believe we're beginning to see a somewhat better relationship between government and the petroleum industry.

Today, the American public is showing a greater understanding of the seriousness of the country's energy situation.

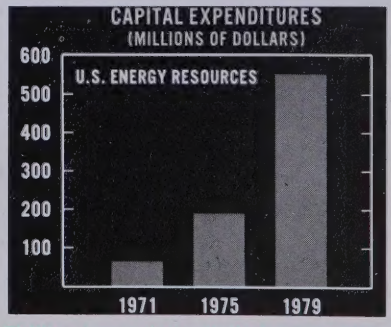
And today, we — Phillips — are in the strongest position in our history. We have strong financial resources, physical resources and natural resources.

The irony of the situation is that today our company, as well as the entire petroleum industry, find ourselves limited by the most important resource of all — people. We simply have more opportunities — more challenges — than we have people, qualified people with a broad range of skills. People trained in finance, drilling, engineering, law, the liberal arts. People trained as clerks, plant operators, maintenance specialists.

Today, in making decisions on any major project, one of the first questions we find ourselves asking is: Do we have the people to do the job?

For the long term, the answer to the people shortage is to add to our work force more of the same kind of committed, competent people that we now have. This will mean increasing our training programs within the company. This will mean increasing our strong financial support of our colleges, universities and technical schools.

But for the short-term, the answer is for all of us to do the best we can. And, I think we can all be proud of our track record. In the next few years, we may have to stretch our capabilities even more. Certainly, we can't turn this country's energy situation around by ourselves. But together, we — all 30,000 Phillips employees — can continue to be a major force in this country's drive for energy independence and national security.



Phillips has substantially increased its commitment to develop energy in the United States — energy from coal and uranium as well as oil and natural gas.

COMMENTARY

PHILLIPS CHAIRMAN EMPHASIZES REALITY OF NATION'S ENERGY PROBLEM

Chairman W. F. Martin presented this analysis of the energy situation at the company's annual meeting.

If you look around the nation today, it is difficult to see a real energy problem.

Currently, United States petroleum supplies are more than adequate.

Oil imports are at their lowest level in four years.

Gasoline prices have stabilized, and gasoline inventories are at the highest level in history.

The effects of a mild winter have greatly reduced consumption of home heating oil and diesel fuel . . . and raised inventories of these products by more than 50 percent from a year ago.

Experience has shown us that when supplies are at comfortable levels, there is a great temptation to become complacent about our energy situation. But to be convinced of the real seriousness of America's energy situation, we need only recall a few of the disturbing events since our last annual meeting.

World oil prices have doubled. The Three Mile Island incident has slowed development of nuclear power. Events in Iran triggered a gasoline shortage last summer and the imprisonment of the American embassy staff in Tehran. Russia's invasion into Afghanistan seriously damaged international relations and endangered Middle East oil reserves, reserves that make up half of the free world's oil supply.

Furthermore, the future is not altogether reassuring. Even though petroleum prices and supplies this year promise to be more stable than in 1979, America will continue to depend on imports for more than 40 percent of its oil.

For 1979, the United States paid $60 billion for foreign oil supplies. For 1980 it is estimated that $85 billion will be sent abroad to pay for imported petroleum.

The foreign nations which supply this oil will act in their own best interests, not ours. Some oil-producing countries are decreasing production. And we can expect them to continue to increase prices in the future. Finally, the threat of oil supply cutoffs caused by political turmoil continues, and in fact has become more serious as a result of recent developments in the Middle East.

So rather than make us comfortable, our current energy situation should cause us serious concern. But this is not to say we should be discouraged. Instead, we should strengthen our determination to reduce America's reliance on imported oil by developing our own abundant energy resources here at home.

Americans have overcome adversity before. Many of us can remember when the attack on Pearl Harbor and the launching of a Soviet space satellite mobilized public opinion and spurred our people to action. And I believe there are signs today that demonstrate that the American people have begun to face up to the energy challenge.

For example, we can see indications that public opinion on energy is becoming more informed and more realistic.

A year ago a national poll showed that at least half of the American people believed the overriding cause of our energy problem was oil company greed.

At the end of last year, public opinion had changed significantly.

The theory that the energy problem is a hoax, contrived by oil companies, is fading.

An increasing majority of Americans now understand, first, that the energy problem is real, and second, that the United States should increase its energy self-sufficiency by developing its own resources.

Furthermore, there is general agreement on these two points among leaders in every segment of American society: business, government, labor, education, the press and responsible consumer organizations.

Differences of opinion still exist, however, mainly on how we should go about achieving increased domestic energy supplies, how much emphasis should be put on coal or nuclear, how much reliance should be placed on solar energy and when it can become a significant factor. But we should not underestimate the consensus achieved so far. Nor should we overlook some specific forward steps this consensus has produced.

In June of last year President Carter began decontrolling prices of U.S. crude oil, oil which has been under federal price controls since the early 1970s. The price of crude oil produced in the United States will now move to the world market price over a period of time.

Unfortunately, after the decision on decontrol was made, Congress enacted an excise tax on crude oil — the so-called windfall profits tax, which eliminated much of the benefits of decontrol. Nevertheless, more realistic pricing of crude oil — moving the price of crude oil toward world prices — is having positive effects.

One positive effect is increasing conservation. The American people are beginning to look at conservation as an important energy resource. They are driving less and car-pooling more, adding insulation in their homes, doing

the small things that add up to big energy savings. Total petroleum consumption right now is down 10 percent from what it was a year ago.

The gradual decontrol of crude oil, along with improved pricing for natural gas, is also having a positive effect on energy production. Drilling for oil and gas is at a 20-year high, with more than 53,000 new wells planned this year.

This new exploration effort is an encouraging sign. Oil and gas still supply nearly three-fourths of America's energy. These fuels must serve as a bridge between today and the time, perhaps in the 1990s, when the country achieves a more diversified energy base — by using more coal, by developing synthetic fuels, by increasing nuclear power, by moving toward more use of solar power.

Coal and nuclear power have the greatest potential for large-scale, comparatively rapid development. America has more energy in coal than the Middle East has in oil. Energy that can be derived from our deposits of oil shale exceeds the potential of the oil reserves of Saudi Arabia. And we have some of the world's largest deposits of uranium.

There is no shortage of energy resources that can be developed right here in the United States. But developing our energy resources will not be quick, easy or cheap. Rather, it will be a long hard process and costly.

We should not expect to be freed of heavy dependence on costly foreign oil — including large quantities from nations with questionable political stability — until well into the 1990s and perhaps beyond.

During this 10- to 20-year period, energy companies must expand the search for energy to more hostile frontier areas and must develop new, complex technology. In most cases, lead time to develop new supplies is long and costs are high.

Development of coal reserves will require very large investments, as will the plants which will use coal.

A new plant to produce 100,000 barrels a day of synthetic fuel will probably require about eight to 10 years for completion and, after factoring in inflation, will probably cost about $5 billion. To build enough of these plants to cut American oil imports by say, two million barrels per day, could conceivably cost more than $100 billion.

And we must not overlook the very large sums the petroleum industry will have to spend just to maintain current oil and gas production if we are to hold down imports.

Considering the magnitude of the investments that must be made, we must express deep concern about whether energy producers will be permitted to generate sufficient funds to finance America's energy requirements. The necessary capital must be made available if the energy producers are to meet the expectations of the American people, who are counting on energy supplies sufficient to assure economic and military security.

The alternative is for government to undertake the job. This choice I believe would be unwise and unacceptable to the American public. Consumers would pay through more taxation, the total costs would be higher, and, of course, government regulations

Phillips is moving ahead with the development of its 25 million pounds of uranium oxide reserves located in northwest New Mexico. Production is expected to reach two million pounds a year by 1985.

and controls would be multiplied.

We in the industry must also express concern about the regulatory climate under which energy companies will be operating. The present regulatory climate is not conducive to efficient energy production. Some regulation is necessary, of course. But regulation should be of a constructive nature and developed for guidance over a long term. This would relieve uncertainties that exist when regulations and policies are frequently changed, as they have been on many occasions in the past.

A constructive regulatory climate involves three steps that must receive national emphasis.

A first and vital step is reliance on the economic strength of the marketplace. America never had a real energy problem until we abandoned the marketplace in favor of government regulations and controls.

Our task now is to remove costly, unnecessary regulations and controls, counterproductive allocation systems, and time-consuming regulatory procedures. Moving back to market forces will stimulate production, encourage conservation and allocate capital without causing major inequities or hardships.

Second, we should encourage sensible and efficient energy conservation. Properly viewed, conservation is an important energy resource, and the quickest, cheapest and cleanest way to respond to higher energy costs.

Third, we should balance our environmental desires with our energy needs. "No-growth" philosophies, we believe, would not be acceptable. Increased energy production is essential if our economy is to prosper, so as to provide additional goods and services, to provide jobs and to maintain our standard of living.

Environmental safeguards are necessary. But they must be carefully defined and efficiently carried out so as to be certain that the benefits justify the costs.

In each of these areas, government has a role to play. And so does industry.

Government can decide environmental questions — such as the question of opening up more of the enormous land areas that are now off limits to energy exploration.

Government can offer individuals and private industry the incentives to conserve more energy and help provide the proper economic climate to develop America's energy resources.

Government can put an end to the endless red tape and bureaucratic delays that are impeding energy development in this country.

Likewise, industry can put more than 100 years of experience into exploring for and producing new energy supplies.

Industry can risk private capital — not taxpayers' money — in the search for energy.

And only industry can have the economic incentive to develop the most efficient means of processing and delivering energy to the consumer.

Finally, each individual citizen associated with the energy industry — including those of us here today — can play an important role.

I mentioned at the outset that the American public is now more understanding of the real energy problem and its causes.

I believe we in the energy industry should build on this new attitude, enlarge this consensus and help generate a feeling of national unity and purpose — a spirit of understanding and cooperation among government, industry and the American people.

This spirit of understanding and cooperation is essential to bringing our country back to a position of energy security.

OPERATING HIGHLIGHTS (liquids in thousands of barrels per day)

	Three Months Ended March 31	
	1980	1979
United States:		
Crude oil produced	123	121
Natural gas liquids produced	145	131
Natural gas produced (net millions of cubic feet daily)	1,019	1,159
Crude oil refined	249	309
Petroleum products sold	443	519
Europe-Africa:		
Crude oil produced	188	158
Natural gas liquids produced	14	1
Natural gas produced (net millions of cubic feet daily)	640	518
Petroleum products sold	68	37
Other areas:		
Crude oil produced	5	8
Natural gas produced (net millions of cubic feet daily)	1	1
Petroleum products sold	2	—

CONSOLIDATED STATEMENTS OF INCOME

	Thousands of Dollars	
	Three Months Ended March 31	
	1980	1979
Revenues:		
Sales and other operating revenues	$3,291,356	$1,946,087
Equity in earnings of nonsubsidiary companies	10,296	131
Other revenues	82,510	40,806
	3,384,162	1,987,024
Costs and expenses:		
Costs and operating expenses	2,086,776	1,312,187
Selling, general and administrative expenses	106,261	82,865
Depreciation, depletion, amortization and retirements	183,701	128,917
Taxes other than income taxes	60,365	33,060
Interest and expense on indebtedness	25,210	22,688
Provision for income taxes	583,250	230,306
	3,045,563	1,810,023
Net income	$ 338,599	$ 177,001
Net income per common share	$ 2.20	$ 1.15
Average shares outstanding (in thousands)	154,004	154,427

CONDENSED CONSOLIDATED BALANCE SHEETS AT MARCH 31

Assets:		
Cash and marketable securities	$1,465,494	$1,217,481
Accounts and notes receivable	1,508,598	855,820
Inventories	715,551	451,002
Prepaid expenses and other current assets	77,399	91,724
Total current assets	3,767,042	2,616,027
Investments and long-term receivables	299,904	226,505
Properties, plants and equipment — net	4,947,857	4,082,889
Deferred charges	84,480	98,581
	$9,099,283	$7,024,002
Liabilities and stockholders' equity:		
Accounts and notes payable	$1,268,805	$ 727,914
Long-term debt and obligations due within one year	74,060	81,856
Accrued taxes	1,566,237	881,743
Deferred income taxes	1,800	9,559
Other accruals	103,850	79,397
Total current liabilities	3,014,752	1,780,469
Long-term debt	662,991	663,627
Other long-term liabilities	172,665	97,082
Obligations under capital leases	93,698	116,565
Accrued contingent liabilities	147,639	152,783
Deferred income taxes	447,286	414,322
Other deferred credits	108,690	83,634
Minority interest in consolidated subsidiaries	10,704	10,286
Stockholders' equity	4,440,858	3,705,234
	$9,099,283	$7,024,002

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Thousands of Dollars	
	Three Months Ended March 31	
	1980	1979
Funds provided from operations amounted to	$500,363	$340,044
While funds were expended for:		
Properties, plants and equipment	337,560	252,802
Investments	22,023	1,602
Reduction of long-term borrowings	7,804	15,909
Dividends to company stockholders	69,418	46,328
Purchase of company stock	85,571	—
Other	15,024	4,028
	537,400	320,669
Which left a balance (deficiency) of	(37,037)	19,375
Additional funds were provided from:		
Long-term borrowings	21,940	181
Property sales and retirements	20,404	6,363
Sales of investments	15,240	3,817
Proceeds from sale of company stock	21	—
Other	23,700	14,945
	81,305	25,306
Which resulted in increased working capital of	$ 44,268	$ 44,681

SELECTED FINANCIAL DATA

Summary of net income:		
Petroleum exploration and production		
United States	$153,896	$ 78,402
Outside United States	140,835	36,543
	294,731	114,945
Petroleum refining, marketing and transportation		
United States	(5,467)	34,932
Outside United States	18,548	9,361
	13,081	44,293
Worldwide petroleum	307,812	159,238
Worldwide chemicals	50,524	28,123
Other †	(19,737)	(10,360)
	$338,599	$177,001
Return on average total assets	15.5%	10.3%
Capital expenditures — properties, plants and equipment:		
Petroleum operations — U.S.	$180,250	$129,869
Petroleum operations — Outside U.S.	85,788	75,471
Worldwide chemicals	38,950	29,432
Other	24,028	15,836
Corporate	8,544	2,194
Exploration costs	96,157	69,882
Foreign currency translation losses	8,385	8,795

†Other includes equity in earnings of nonsubsidiary companies, coal, uranium, geothermal and other corporate.

Phillips is intensifying its search for new oil and natural gas reserves in North America. This Idaho well is one of several Phillips has drilled in the Rocky Mountain Overthrust Belt, one of the most promising onshore areas in the country. Severe cold, 30-foot snowdrifts, cliffs and rocky terrain are just some of the obstacles seismic and drilling crews have to overcome. As a result, exploratory wells costing as much as $6 million aren't uncommon.

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004

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FIRST HALF 1980

NEWSREPORT

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FIRST HALF

EARNINGS
(per share)

REVENUES
(billions)

*Reflects restatement of first quarter earnings to reflect Norwegian income tax increase applied retroactively.

To The Owners of Phillips Petroleum Company:

Phillips earned $499.3 million, or $3.26 a share, on revenues of $6.61 billion during the first six months of 1980. Earnings were up 27 percent from the same period a year ago, when profits were $391.6 million, or $2.54 a share, on revenues of $4.20 billion.

The six-month figures reflect higher Norwegian income taxes legislated in May, but made retroactive to Jan. 1, 1980. As a result, first quarter 1980 earnings as originally reported have been reduced by $54.2 million and restated to $284.4 million, or $1.85 a share.

For the first six months of 1980, the additional Norwegian income taxes reduced the company's earnings by $117.8 million.

Total income taxes for the first half of 1980 were $1.28 billion, a 148 percent increase over the first half of 1979. Taxes other than income taxes increased 98 percent to $136 million, primarily because of the windfall profits tax, which went into effect on March 1.

Earnings for the first half of 1980 represented a return on average total assets of 11.1 percent.

Capital expenditures for the first six months of the year rose 30 percent to $731 million, while spending on energy-related activities in the U.S. increased 33 percent to $413 million.

Phillips earnings during the second quarter of 1980 were $214.8 million, or $1.41 a share, on revenues of $3.23 billion. These earnings were just slightly above those reported for the same period a year ago, when earnings were $214.6 million, or $1.39 a share on revenues of $2.22 billion.

The first-half earnings improvement was the result of increased worldwide production of petroleum liquids and higher prices for both domestic and foreign petroleum liquids and natural gas.

Second quarter earnings were adversely affected by the performance of domestic refining, marketing and transportation operations and a decline in profits from chemicals activities. Higher costs for crude oil and natural gas liquids could not be recovered fully because of an industry-wide surplus of gasoline and other petroleum products. In addition, sharply lower demand for both crude oil and petroleum products in the second quarter resulted in an increase in inventory levels, which adversely impacted earnings.

Chemicals earnings in the first half were virtually unchanged from 1979, but second quarter earnings were lower because of higher raw material costs and the currently depressed U.S. fibers, housing and automobile markets.

Phillips worldwide crude oil production increased 6 percent during the first half of 1980. Production of natural gas liquids rose 14 percent, while natural gas production declined 2 percent.

Chairman

President and
Chief Executive Officer

August 25, 1980

Bartlesville, Oklahoma

PHILLIPS RESTRUCTURES TOP MANAGEMENT

Phillips top management has been realigned. President Wm. C. Douce characterized the restructuring as another step in a management transition that began in April when he was elected chief executive officer. Said Douce: "This restructuring is designed to provide a more effective way to manage the company in light of the growing size and complexity of our operations and their likely future direction."

There were three key elements in the realignment:

- Two executive vice presidents were named assistants to the president. One will work with Douce on matters concerning company operations. The other will advise Douce on energy issues and their impact on the company.
- All of the company's operations and most of its staff organizations were aligned under four executive vice presidents who will report directly to Douce.

One of the four areas will involve all corporate staffs dealing with financial matters, while a second will include corporate relations activities, research and development, engineering and corporate services. The company's petroleum products and chemicals activities, as well as Applied Automation, Inc., the company's technological subsidiary, are included in a third area. The fourth area involves all of the company's energy development efforts.

- In the area of energy development, the former natural resources group was divided into three separate operating groups — petroleum exploration and production, gas and gas liquids, and minerals, which includes all of Phillips activities in coal, uranium, oil shale and geothermal power.

SECOND WELL CONFIRMS IVORY COAST DISCOVERY

Completion of a second well has confirmed an earlier oil discovery in the offshore waters of the Republic of the Ivory Coast. The second well confirmed the presence of oil-bearing sands apparently equivalent to some of those found in the discovery well. No production testing was carried out because of a contractual requirement to release the drillship.

The new well is 2½ miles east-southeast of the discovery well in 1,590 feet of water. The original discovery well, announced in April, is located about 13 miles offshore from the western African nation. The group undertaking drilling operations includes Phillips; AGIP (Africa) Ltd.; Petroci, the National Oil Company of the Ivory Coast, and Sedco, Inc.

The group is scheduled to begin drilling a third well in the fall. Geophysical surveys are currently underway.

URANIUM MINING PLAN REVISED

Phillips Uranium Corporation has announced suspension of shaft-sinking operations on one section of its Nose Rock project in northwestern New Mexico. Phillips has been sinking shafts on two sections of land at the mine site — a production and a ventilation shaft on one section, and a production shaft on another.

J. H. Presnell, executive vice president of Phillips Uranium, said a revised mining plan would permit the suspension of activity on the second section without delaying initial access to the ore body from the two shafts in the first section.

However, he said full production from the mine would not be achieved in 1985 as previously reported. Phillips Uranium, headquartered in Albuquerque, N.M., is one of Phillips wholly owned subsidiaries.

INTENT LETTER SIGNED FOR GEOTHERMAL ELECTRICAL GENERATION

Geothermal energy would be used to generate electricity under terms of a letter of intent recently signed by Phillips and Utah Power & Light Co.

According to the agreement, UP&L would plan and build a 20-megawatt power plant designed to use geothermal energy produced from the Roosevelt Hot Springs in southwestern Utah, where Phillips has been participating in the development of geothermal steam wells since 1975. During the period before a formal agreement is signed, UP&L will use reservoir and engineering data to confirm the power-generating capacity of the geothermal resource.

Harry Blundell, president and chief executive officer of UP&L, said the company's first geothermal plant is scheduled to be generating electricity by 1983. He said this plant is expected to be followed by additional 50-megawatt geothermal units.

Phillips Executive Vice President W. A. Roberts said that "although geothermal energy may not provide more than a fraction of the nation's total energy, it can make a significant contribution in certain parts of the country."

ENERGY SAVINGS CONTINUE TO CLIMB

Phillips saved enough energy through conservation efforts in 1979 to fuel 85,000 cars for a year. The amount saved was the equivalent of 1.7 million barrels of oil.

Since Phillips began its worldwide energy conservation effort in 1973, the company has reduced its rate of energy use by the equivalent of 12.8 million barrels of oil per year. This is enough energy to provide the annual needs of a city the size of Savannah, Ga., Lubbock, Texas, or Roanoke, Va.

Phillips energy conservation program has two thrusts. One is to encourage employees to save energy by keeping thermostats down, turning off unneeded equipment and other similar steps. The second thrust is the installation of energy-saving equipment throughout the company's worldwide operations.

Since 1973, Phillips has spent, or plans to spend, more than $188 million on energy conservation projects.

IBM EXECUTIVE ELECTED TO BOARD

George B. Beitzel, senior vice president and a director of the International Business Machines Corporation, was elected to the Phillips board of directors effective July 1.

Beitzel joined IBM in 1955, and in 1972 he was made group executive for the general business group, which involved responsibility for international as well as domestic operations. Also that year, he was elected to IBM's board of directors and named a senior vice president of the company. In 1979 he joined the IBM corporate office and corporate management committee.

Beitzel is a graduate of Amherst College and the Harvard Graduate School of Business.

IN REMEMBRANCE

Phillips regrets to announce the deaths of a director and a senior company official.

Board member J. Lucian Smith of Atlanta died July 19 after suffering a heart attack. Smith was the retired president and chief operating officer of the Coca-Cola Company and had been elected to the board in 1979.

Senior Vice President LeRoy Culbertson died July 12 after also suffering a heart attack. He had been in charge of corporate planning and development since 1978. Culbertson joined Phillips in 1939 and throughout much of his career was involved in the area of natural resources and the company's gas and gas liquids operations.

INDUSTRY TRENDS

PLASTIC SEWER PIPE SOLVING CITY CRISIS

Plastic sewer pipe may solve the sewage system crisis now facing many cities.

"Cities from California to New York need to renew or replace deteriorating sewer systems for environmental reasons, and polyethylene pipe is the way to do it," says Bill J. Sanders, market manager for Phillips Driscopipe, Inc.

Driscopipe comes in sizes through 48 inches in diameter. Driscopipe was the first to manufacture pipe this large in the U.S. Made from Phillips own trademarked Marlex, a superior high-density polyethylene, it is watertight and will never corrode.

Best of all, Driscopipe is flexible, so that it can be slipped inside existing sewer lines without ripping out old lines or tearing up streets.

The process, known as slip lining, works like this: First, video cameras survey the existing sewer line from the inside to see if joints are misaligned or sections have collapsed. From survey results and engineering drawings, excavation sites are pinpointed and holes are dug large enough to insert the polyethylene pipe into the old line. A special process called butt fusion joins the pipe sections together and seals off outside infiltration.

Some cities that have used the Driscopipe slip lining method report savings of 40-80 percent over alternate repair methods.

But sewer pipe is not the only product produced by Phillips Dallas-based subsidiary. Five plants in the U.S. and one in Canada manufacture polyethylene pipe for electrical conduit, natural gas distribution, oil field piping systems, water lines, mining slurries and industrial and petrochemical applications.

As an added bonus, Sanders says, polyethylene pipe is "energy efficient" because it requires less energy to produce and install than conventional pipe materials.

Plastic sewer pipe, like this Phillips Driscopipe installed in Fall River, Mass., can be slipped into deteriorating concrete systems, saving time and money.

SATELLITES NEW TOOL IN ENERGY SEARCH

The search for oil has required the use of just about every tool and gadget on earth. And recently, the oil industry has turned its attention to space, where earth-circling satellites can aid in finding tomorrow's energy sources.

The satellites utilized by oil company geologists contain no astronauts. Instead, they're small, unmanned instrument packages that circle the globe every 90 minutes or so.

This type of satellite, called LANDSAT, scans the earth with cameras and electronic sensors from a height of 500 miles, sending back hundreds of images every day to a special processing center in Sioux Falls, S.D. It sweeps every inch of the earth's land surface every 18 days.

Since 1972, when the program began, LANDSAT has generated trillions of bits of information about the earth's surface for geologists to study. Phillips and six other major oil companies have invested in a computer-based system of its own to process LANDSAT tapes and make "hard copies" of the electronic data in picture form.

A sophisticated television set with a large screen enables operators to manipulate the data in many ways. They can change colors or contrast, enlarge, reduce, tilt or otherwise alter the image in order to make geologically interesting features stand out. Certain types of geological structures and formations can alert trained eyes to the possible location of oil and natural gas or mineral deposits.

Kurt Hagen, Phillips surface mapping supervisor, says it's hard to attribute any particular energy discovery to the space pictures. A lot of additional detailed geological study is needed to move from a satellite picture covering 13,225 square miles to a drilling hole a few inches in diameter.

"Geological evaluation requires teamwork. It's hard in this day and age to find one individual who can lay claim to finding oil and gas — so many types of expertise are involved," Hagen adds.

But, says Hagen, the LANDSAT pictures enable the search area to be narrowed considerably. And Phillips geologists are working on an increasing number of LANDSAT-inspired exploration studies which could help to meet the nation's growing energy needs.

COAXING MORE OIL FROM OLD FIELDS

Phillips engineers are coaxing new life out of old oil fields using a technology called "enhanced oil recovery" (EOR).

An oil field normally gives up its first batch of oil under the natural pressure contained in the reservoir. But this pressure often subsides quickly, leaving the bulk of the oil still in the ground.

By using secondary recovery techniques, such as flooding a reservoir with water, a producer can build up pressure again and recover more oil.

Still, it's estimated that about two-thirds of the potential oil in a field remains locked in the ground, much of it untouchable with current technology. In the United States alone, this amounts to some 300 billion barrels of oil, and government and industry experts are hoping to recover some of it through EOR.

EOR is a highly complex process involving the injection of a substance (usually fluids, chemicals or steam) into a reservoir to force out trapped oil and move it toward a producing well.

Phillips, with about 100 patents in EOR-related technologies, was the first oil company to form a partnership enterprise to market and develop full EOR services.

The company, organized in 1978, is called CORT (Custom Oil Recovery Technology) and is a partnership with Hercules, Inc.

CONSOLIDATED STATEMENTS OF INCOME

	Thousands of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	1980	1979	1980*	1979
Revenues:				
Sales and other operating revenues	$3,153,018	$2,160,267	$6,444,374	$4,106,354
Equity in earnings of nonsubsidiary companies	3,316	16,416	13,612	16,547
Other revenues	73,845	40,239	156,355	81,045
	3,230,179	2,216,922	6,614,341	4,203,946
Costs and expenses:				
Costs and operating expenses	1,998,730	1,387,966	4,085,506	2,700,153
Selling, general and administrative expenses	86,700	86,943	192,961	169,808
Depreciation, depletion, amortization and retirements	182,608	180,910	366,309	309,827
Taxes other than income taxes	75,683	35,571	136,048	68,631
Interest and expense on indebtedness	28,325	24,589	53,535	47,277
Provision for income taxes*	643,284	286,341	1,280,719	516,647
	3,015,330	2,002,320	6,115,078	3,812,343
Net income	$ 214,849	$ 214,602	$ 499,263	$ 391,603
Net income per common share	$ 1.41	$ 1.39	$ 3.26	$ 2.54
Average shares outstanding (in thousands)	152,328	154,428	153,166	154,427

CONDENSED CONSOLIDATED BALANCE SHEETS AT JUNE 30

	Thousands of Dollars	
	1980	1979
Assets:		
Cash and marketable securities	$1,320,013	$1,314,902
Accounts and notes receivable	1,498,023	997,949
Inventories	866,677	452,080
Prepaid expenses and other current assets	96,996	73,660
Total current assets	3,781,707	2,838,591
Investments and long-term receivables	327,395	231,541
Properties, plants and equipment — net	5,173,403	4,217,472
Deferred charges	93,986	105,647
	$9,376,491	$7,393,251
Liabilities and stockholders' equity:		
Accounts and notes payable	$1,253,590	$ 889,712
Long-term debt and obligations due within one year	73,352	79,593
Accrued taxes	1,733,222	917,590
Deferred income taxes	28,126	6,591
Other accruals	89,058	69,890
Total current liabilities	3,177,348	1,963,376
Long-term debt	653,790	659,521
Other long-term liabilities	199,620	112,808
Obligations under capital leases	86,375	108,968
Accrued contingent liabilities	157,163	161,641
Deferred income taxes	498,862	416,745
Other deferred credits	87,842	93,981
Minority interest in consolidated subsidiaries	11,344	10,403
Stockholders' equity	4,504,147	3,865,808
	$9,376,491	$7,393,251

*In the second quarter the Norwegian government passed tax legislation which increased income tax rates retroactive to January 1, 1980. As a result, first quarter earnings as originally reported were reduced $54,185,000 (35 cents a share).

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Thousands of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	1980	1979	1980*	1979
Funds provided from operations amounted to	$464,227	$402,585	$ 909,098	$742,629
While funds were expended for:				
Properties, plants and equipment	393,693	307,953	731,253	560,755
Investments	54,253	1,476	76,276	3,078
Reduction of long-term borrowings	34,098	13,649	41,902	29,558
Dividends to company stockholders	68,512	54,050	137,930	100,378
Purchase (Sale) of company stock	28,863	(15)	114,413	(15)
Other	10,312	370	25,336	4,398
	589,731	377,483	1,127,110	698,152
Which left a balance (deficiency) of	(125,504)	25,102	(218,012)	44,477
Additional funds were provided from:				
Long-term borrowings	14,001	431	35,941	612
Property sales and retirements	15,518	8,250	35,922	14,613
Sales of investments	25,934	2,372	41,174	6,189
Other	(22,388)	3,502	1,312	18,447
	33,065	14,555	114,399	39,861
Which resulted in increased (decreased) working capital of	$ (92,439)	$ 39,657	$ (103,663)	$ 84,338

SELECTED FINANCIAL DATA

Summary of net income:				
Petroleum exploration and production				
United States	$146,736	$ 57,068	$300,632	$135,470
Outside United States	57,559	46,658	144,106	83,201
	204,295	103,726	444,738	218,671
Petroleum refining, marketing and transportation				
United States	(44,784)	39,827	(50,251)	74,759
Outside United States	13,504	11,587	32,052	20,948
	(31,280)	51,414	(18,199)	95,707
Worldwide petroleum	173,015	155,140	426,539	314,378
Worldwide chemicals	29,365	51,810	79,889	79,933
Other †	12,469	7,652	(7,165)	(2,708)
	$214,849	$214,602	$499,263	$391,603
Return on average total assets			11.1%	11.2%
Capital expenditures — properties, plants and equipment:				
Petroleum operations — U.S.	$195,582	$156,667	$375,832	$286,536
Petroleum operations — Outside U.S.	109,570	92,206	195,358	167,677
Worldwide chemicals	34,690	29,140	73,640	58,572
Other	28,188	22,098	52,216	37,934
Corporate	25,663	7,842	34,207	10,036
Exploration costs	89,929	105,023	186,086	174,905
Foreign currency translation (gains) losses	(4,191)	(7,965)	4,194	830

†Other includes equity in earnings of nonsubsidiary companies, coal, uranium, geothermal and other corporate.

OPERATING HIGHLIGHTS (liquids in thousands of barrels per day)

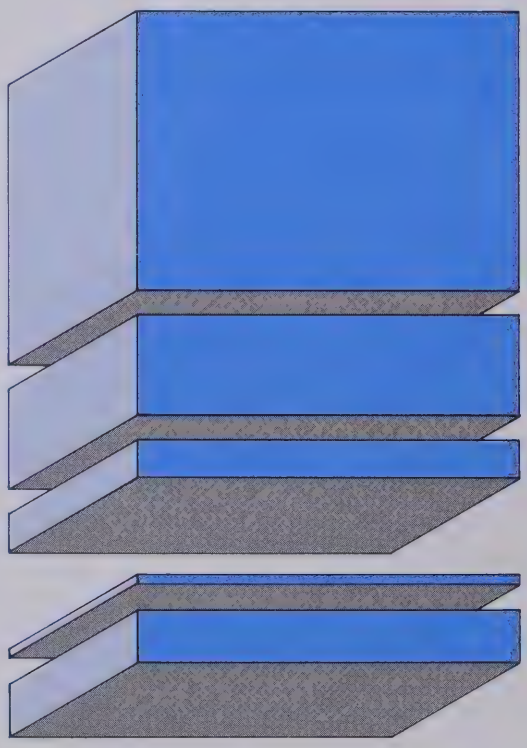
United States:				
Crude oil produced	120	122	121	122
Natural gas liquids produced	150	146	148	139
Natural gas produced (net millions of cubic feet daily)	949	1,109	984	1,134
Crude oil refined	266	284	258	297
Petroleum products sold	423	432	433	476
Europe-Africa:				
Crude oil produced	173	160	181	159
Natural gas liquids produced	14	4	14	2
Natural gas produced (net millions of cubic feet daily)	559	454	600	485
Petroleum products sold	42	42	55	39
Other areas:				
Crude oil produced	4	7	4	7
Natural gas produced (net millions of cubic feet daily)	1	—	1	1
Petroleum products sold	—	—	1	—

Where The Money Goes

Here's a graphic illustration of how Phillips used the revenues it received during the first six months of 1980.

Out of every dollar of revenue, 87 cents was paid to others. Of that amount 58 cents went to suppliers for crude oil and other materials and services, 21 cents went to various foreign and U.S. government tax collectors, and another 8 cents was paid to the company's 30,000 employees for wages and benefits.

The remaining 13 cents represents a profit of 8 cents and 5 cents for capital recovery (depreciation, etc.). Of the 13 cents, 11 cents was reinvested in the business, principally in finding and developing tomorrow's energy, and 2 cents was paid to the company's 121,000 stockholders.



$1	Revenue of one dollar
58¢	Paid to suppliers
21¢	Paid to tax collectors
8¢	Paid to employees
87¢	Total paid to others
13¢	Amount available to Phillips
2¢	Paid to stockholders
11¢	Reinvested in the business

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004

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THIRD QUARTER 1980

NEWS REPORT

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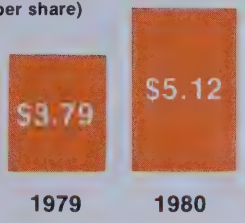
NINE MONTHS EARNINGS
(per share)



REVENUES
(billions)

AR27

To The Owners of Phillips Petroleum Company:

Phillips estimated earnings for the first nine months of 1980 were $782.6 million, or $5.12 a share, on total revenues of $9.84 billion. Earnings were 34 percent higher than in the same period of 1979, when Phillips reported profits of $584.6 million, or $3.79 a share, on revenues of $6.7 billion.

By comparison, Phillips income tax for the first nine months rose 95 percent to $1.73 billion, compared with total income tax of $888 million for the same period a year ago.

Earnings for the first nine months of 1980 represented a return on average total assets of 11.4 percent. Return on average stockholders' equity was 23.7 percent.

The company's third quarter earnings were $283.4 million, or $1.86 a share, on revenues of $3.22 billion. In the same period last year, the company earned $193.0 million, or $1.25 a share, on revenues of $2.5 billion.

Third quarter 1980 earnings were 47 percent higher than third quarter 1979 earnings. Approximately two-thirds of the earnings improvement resulted from lower non-productive lease charge-offs, lower foreign currency translation losses and adjustments in the provision for foreign income taxes.

Phillips earnings in the first nine months and the third quarter benefited from the continued worldwide escalation in the prices of petroleum liquids and natural gas. The increased prices more than offset lower results in the company's refining, marketing and chemical activities.

Refining, marketing and chemical earnings have been reduced because higher raw material costs could not be recovered in the marketplace. Lower demand for gasoline and other petroleum products has resulted in vigorous price competition and the recession reduced sales of most chemical products.

Capital expenditures during the first nine months of the year rose to $1.12 billion. Nearly three-quarters of the company's capital expenditures were made in the United States.

Worldwide crude oil production was 2 percent higher during the first nine months of 1980 than for the same period a year ago. Natural gas liquids production was 11 percent higher and natural gas production was down 6 percent.

In the United States, crude oil production was about the same as a year ago, natural gas liquids production increased 6 percent, while natural gas production decreased 15 percent.

Chairman

President and
Chief Executive Officer

November 24, 1980

Bartlesville, Oklahoma

THE WORLD OF PHILLIPS

PHILLIPS INTENSIFIES U.S. ENERGY SEARCH

Phillips is intensifying its search for oil and gas in the United States. In a major expansion of its onshore acreage, the company has acquired a one-third interest in leases on about eight million acres of land in Idaho, Utah, Arizona and New Mexico. Geologists believe this land may contain extensions of the same oil and gas bearing formations found in the nearby Overthrust Belt, where significant discoveries have been made in the past five years.

Phillips acquired the new acreage in an agreement with Anschutz Corporation and Peopies Energy Corporation. Anschutz and Texoma Production Company, a wholly owned subsidiary of Peoples, are joint owners of the acreage.

Phillips investment, including cash and commitments to perform exploratory work in the area, is around $60 million. The company has replaced Anschutz as operator on the acreage and is in charge of an exploratory well being drilled in Pinal County, Ariz., about 50 miles southeast of Phoenix.

Phillips has been active in the Overthrust Belt for the past 12 years and currently holds more than two million net acres in and around this extended geologic formation, where layers of rock have been pushed over one another like shingles on a house.

Acquisition of the additional acreage was part of an overall expansion of Phillips domestic exploration and development program.

Earlier in the year, the board of directors approved a $600 million boost in the company's capital authorization budget, with most of the additional money earmarked for spending in the United States.

The increase raised the 1980 budget by 32 percent to $2.5 billion.

The budget increase will allow Phillips to expand its search for energy in the U.S., improve its natural gas gathering and processing facilities, increase expenditures on coal mining operations and make additional refinery modifications for the handling of heavier, higher-sulfur crude oils.

PHILLIPS REVISES EKOFISK ESTIMATES

Phillips expects to produce less oil and gas than earlier estimated from its Greater Ekofisk Area field in the Norwegian North Sea.

In a report to the Norwegian government this month, reserves for the Phillips group in the seven-field Ekofisk area, including oil and gas already produced, were estimated to be 2.9 billion barrels of oil and oil equivalent. In March, Ekofisk reserves for the group had been estimated to be 3.2 billion barrels of oil and oil equivalent. The latest estimate will result in a reduction of 3.6 percent in Phillips Petroleum Company's worldwide reserves.

The revised estimate does not take into account amounts which may be produced by enhanced recovery techniques.

Petroleum liquids production for the Phillips group from Greater Ekofisk averaged 440,000 barrels a day during the first nine months of 1980, with average gas sales of 1.3 billion cubic feet a day. Based on production experience during this period, 1980 is expected to be the peak production year for the Phillips group from the Greater Ekofisk area program.

PHILLIPS-GREAT BASINS END MERGER TALKS

Phillips and Great Basins Petroleum Company have jointly agreed to terminate discussions aimed at an eventual acquisition of Great Basins by Phillips.

Phillips said the transaction could not be completed because the Canadian government, citing provisions of the Canadian Foreign Investment Act, refused to approve the acquisition.

The two companies had announced in March an agreement in principle concerning the proposed acquisition. The approximate purchase price was announced as $18 per share of Great Basins stock.

Great Basins, a Los Angeles firm, is engaged primarily in oil and gas operations in the United States and Canada and has extensive natural gas reserves in Canada.

FLORIDA RESORT COMPLEX TO BE REDESIGNED

A major redesign and renovation program is planned for Pier 66, Phillips hotel and marina complex in Fort Lauderdale, Fla.

Executive Vice President R. G. Wallace said the 22-acre resort would be completely renovated during the next 18 months.

"We'll be renovating all the guest rooms and lobby areas and building a new restaurant, a health club and other new facilities to make sure Pier 66 remains a top-quality attraction," Wallace said.

Wallace said the program would be under the supervision of Clive C. L. Chu, a former Washington, D.C., hotel executive who was named president and chief executive officer of Pier 66 in September.

FINAL GEOTHERMAL AGREEMENT REACHED

Final agreement has been reached between Phillips and Utah Power & Light Co. for the use of geothermal energy to generate electricity.

The agreement calls for UP&L to use geothermal energy produced by Phillips from the Roosevelt Hot Springs in southwestern Utah for a 20-megawatt power plant. The plant would generate enough electricity to serve the needs of a city of 20,000 people and could be completed as early as 1983 if necessary approvals can be obtained. UP&L plans to build additional 50-megawatt geothermal units after the first plant is in service and reserves are proven to be sufficient.

The plant will provide the first geothermal electricity ever produced commercially in Utah. There are only two other places in the United States where geothermal energy is being used for commercial electrical generation, both in California.

COMPANY INVENTIONS AMONG 1980's BEST

Two Phillips inventions have been picked among the top 100 of 1980 by a technical journal.

Industrial Research and Development magazine said a Phillips industrial burner and a device for analyzing liquids were among the most significant technical products developed during the year. All 100 inventions are displayed each year in Chicago's Museum of Science and Industry. Two Phillips inventions were also selected in 1979.

The industrial burner was picked because it produces less pollution than ordinary burners. It precisely maintains optimum conditions for combustion of high-nitrogen fuels, resulting in lower levels of nitrogen oxides.

The liquid analyzer was developed by Applied Automation, Inc., a Phillips subsidiary. It measures minute variations in electrical conductivity in order to determine the composition of various chemicals used in making plastic, synthetic fibers and other products.

PHILLIPS REPORT SELECTED FOR AWARD

Phillips 1979 annual report has been selected as one of the 11 best in the nation by an independent board of judges in the 40th Annual Report competition sponsored by Financial World magazine.

The annual report, which is sent each spring to stockholders and other interested persons, was chosen as the winner in the natural resources category.

Phillips became eligible for competition in this category by winning first place among petroleum companies with annual sales above $600 million. The reports were judged on their content and graphic presentation, as well as by the completeness and clarity of their financial data.

PRODUCTIVITY: KEY TO ECONOMIC SURVIVAL

Increasing productivity is the goal of many American business firms. The United States is still the world's most productive major nation, but many other countries are increasing their productivity at a much faster rate.

If current trends continue, Japan, West Germany, Canada and France will top the U.S. in productivity by 1990.

Phillips has been concentrating on improving productivity since 1977. The company's productivity administrator, Bill McDonald, began by establishing measurement systems in each group and division so managers can see their productivity trends.

Says McDonald, "Phillips is a large and complex company, and most jobs require their own special productivity measurement systems. However, most of our plants now have measures which compare their output with the basic inputs of materials, capital, energy and labor."

Phillips is moving carefully both to set up measuring methods and to create improvement. "This is no crash program," says McDonald. "The system is being set up slowly and carefully, because productivity improvement should be with us from here on out."

Phillips is a leader in the automation of refining processes. Devices developed by Phillips and others to monitor and anlyze on-stream petrochemical production are a key reason why the industry's productivity rate increased at three times the pace of U.S. industry in general between 1967 and 1977.

But McDonald emphasizes that improving productivity involves more than new technology.

Improving product quality, increasing output and improving safety conditions are important elements in the effort to boost productivity, and the performance of individuals is critical in each area, McDonald says.

"Individual employees can play a direct role in the whole productivity effort," says McDonald. "They can make a big difference."

Equipment developed by Applied Automation, Inc., a Phillips subsidiary, gives the operators of refineries and petrochemical plants a computer-assisted control system providing more information and faster response. This can help increase plant efficiency and productivity.

Special Report

Wm. C. Douce, president and chief executive officer, reported on Phillips current status before the Boston Society of Financial Analysts on October 29. This special section of *NEWSREPORT* includes his remarks.

FRONT COVER: In this Louisiana marsh land, Phillips is drilling to find natural gas. The well is in the Tuscaloosa Trend, one of the nation's most promising exploration areas.

This chart and those on page 8 compare Phillips performance with the average performance of 18 major oil companies, including Phillips. In the year 1978, the charts exclude Phillips gain from the sale of its stock interest in Pacific Petroleums Ltd.

REMARKS BY WM. C. DOUCE

This has been an eventful year for the petroleum industry. Nineteen-eighty began with Congress debating a so-called "windfall profits" tax; with oil companies worrying whether there would be enough gasoline to meet peak summer demand and enough crude oil to keep refineries running at good operating levels.

The windfall profits tax became a reality. But with that exception most other forecasts went awry.

A month ago, the industry was experiencing a "mini-glut." Now we're concerned about lost production from Iran and Iraq.

The year 1980 appears to be setting a pattern for what we can expect the worldwide oil outlook to be for the rest of the decade. That is, periods of temporary surpluses and softening prices alternating with sporadic, unpredictable periods of tightening supplies and rising prices.

The tremendous uncertainty posed by this touch-and-go supply/price situation isn't the only challenge for the U.S. oil companies in the decade ahead.

Overseas, the U.S. petroleum industry will remain very much in demand for its technology and expertise in finding and developing oil and natural gas. But at the same time the industry will find itself with less and less control over the production of reserves, under continual threat of increased taxation and often playing second fiddle to the national oil companies of host governments.

Here at home, a similar paradox exists. The U.S. oil industry is seen as the key to our country's energy security. Yet the drive for increased energy supplies is countered by limited access to exploratory areas, by inflexible environmental regulations, by the continuing threat of increased taxation and by deep-seated public suspicion about the motives and actions of oil companies.

This, then, is the environment in which U.S. oil companies are operating today: an environment of uncertain supplies and prices and an environment where the ability to find and develop energy is often thwarted by regulatory or political considerations. And pervading it all is the high-risk nature of the business itself. Despite the most sophisticated technology, the oil business is still subject to the vagaries of nature. Despite our advanced expertise, our chances of a rank wildcat finding any hydrocarbons are about one in six.

Against that backdrop, let's turn to what Phillips is doing to strengthen its position in the energy and petrochemical arenas and improve its flexibility to adapt to changing supply, market and political conditions.

First, we're continuing our vigorous effort to find and develop oil and natural gas. Petroleum is our middle name, and petroleum will remain the backbone of our business. We believe there are still vast reserves of oil and natural gas to be found and recovered, and we intend to be a part of this action.

In the years ahead, our commitment to petroleum development will include greater emphasis on the United States.

This year Phillips will drill or participate in about 800 wells in the United States. This is an increase of more than 30 percent from a year ago. On a net well basis, we'll be drilling about 140 wells. Many of these wells will be drilled on newly acquired acreage.

In the past 12 months alone, we've spent more than $200 million for leases in the Beaufort Sea, the Santa Barbara Channel, the Gulf of Mexico and the Georges Bank area off your own coastline. We feel these are some of the most promis-

ing offshore prospects in the country.

In the lower 48, we're active in the Tuscaloosa Trend and the Overthrust Belt. We recently agreed to invest some $60 million to acquire a third interest in eight million acres of leases in Idaho, Utah, Arizona and New Mexico. This action increases our total U.S. acreage by more than a third.

Elsewhere on the North American continent, we're drilling for natural gas in the Canadian Overthrust and in the Arctic Islands. We're also optimistic about our heavy oil sands in the Alberta area of Canada. We have a pilot extraction project under way there and plan to expand it next year.

While our effort will be increased in the United States, we plan to continue a major effort in the search for oil and gas overseas. We will remain active participants in petroleum exploration in Europe, Africa, the Far East and Australia.

In regard to international exploration and development, we frequently are asked what we plan to do as an encore to Ekofisk.

There are a number of prospects we are pursuing. One, we plan to be producing in 1984 from our Maureen discovery in the United Kingdom sector of the North Sea, with gross output growing to about 75,000 barrels of oil a day. Just northwest of Maureen is the T-Block region, where we've had

The *Phillips Oklahoma* is nudged into port at Phillips terminal in Freeport, Texas. The vessel is one of six 51,000-ton tankers designed to bring oil to the Sweeny refinery from Mexico and South America or from Caribbean-area terminals where it may have been shipped from Africa, the North Sea or the Middle East.

three discoveries to date. We're in the process of evaluating these discoveries. If the program proceeds as anticipated, the T-Block fields could be brought into production after Maureen.

We're also optimistic about our discovery drilled in the deep-water area off the Ivory Coast. We've drilled two wells in the area, and by year-end a third well will be under way. Although we need to gain additional knowledge about the extent of this discovery, we are moving ahead on engineering studies to prepare us for possible commercial production.

Also in Africa, we're participating in the planning of a proposed liquefied natural gas plant to be built on the Nigerian coast. Phillips was chosen technical leader for this project. If constructed, this would be the largest grassroots LNG plant of its type, and the United States and Europe would be the principal markets for the LNG.

Looking at our exploration and production activities overall, we expect to devote about 50 percent of our capital spending over the next six years to finding and producing oil and gas in the United States and abroad. At the same time, a growing portion of our spending will be directed toward becoming a vigorous competitor in non-petroleum fuels. This is a long-term, slow payout investment. Alternate energy won't bring us any earnings for a while. But we're going to put the money in and sweat it out.

We intend to become one of the major coal producers in the United States. We have eight billion tons of lignite coal reserves in seven Gulf Coast states. We see direct burning in utility boilers to be the first — and primary — market for lignite, and we're going after that market. We expect to start coal deliveries in late 1984 from our first mine, located near Shreveport, La., and we recently signed a contract to supply a utility from a second mine, starting in 1985.

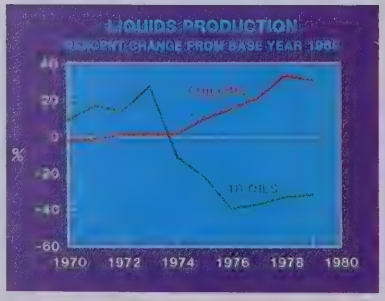
Despite recent setbacks for the U.S. nuclear energy industry, we feel there's a future in uranium. We're moving ahead with shaft sinking in our Nose Rock project in McKinley County, New Mexico. Our strategy is to proceed with caution, prepared to adjust our mining plans according to the price and demand for uranium oxide.

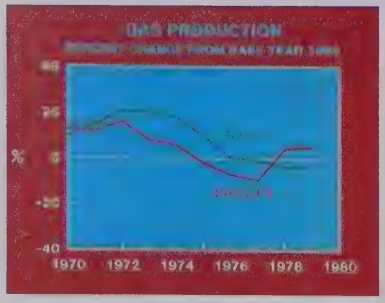
In Utah, we hold extensive oil shale reserves, which we're in the process of evaluating. Our plans are to be producing from the first phase of a development project by 1985 at the rate of 9,000 gross barrels of oil a day. The government's Energy Security Act is going to be a key force behind the development of synthetic fuels. Right now, we're conducting cost studies on our oil shale holdings to see if participation is possible and desirable in view of the incentives proposed under the act. On the other hand, we may decide to assume all the costs with our co-venturers, Sun and Sohio.

Our alternate energy program also includes geothermal energy. We've had several geothermal discoveries and recently signed a contract with a utility company in Utah for the sale of steam from our Roosevelt Springs field. The initial plant will be for 20 megawatts — enough energy to meet the electrical needs of a town of 20,000 people. First deliveries are expected in 1983.

That is a brief overview of our energy resource programs. Turning now to our downstream operations, we're working to improve the profitability of petroleum refining and marketing.

Refining-marketing is a low-return business for us today, but we're taking steps to improve this situation. Specifically, we're moving to gear up our refineries to pro-





Phillips will modernize its Borger, Texas, refinery at a cost of more than $300 million to give it the capability of converting heavy, lower quality crude oils into high-value petroleum products. Completion of the installation is scheduled for 1983.

cess more of the lower grade, less expensive crude oils.

The expansion and modernization of our Sweeny, Texas, refinery will be completed by next spring. At that time, we'll be able to process up to 150,000 barrels a day of the high-sulfur, heavier crude oils out of a total capacity of 190,000 barrels a day. In addition, we have just received permits to begin a major modernization at our refinery in Borger, Texas. By 1983 the refinery will also be able to process about 90,000 barrels a day of the heavier crudes, out of a total capacity of 100,000 barrels a day. These improvements to our refineries mean that by 1983 about two-thirds of our crude oil refining capacity in the United States will be able to handle heavier, higher-sulfur crudes.

As for marketing the output of these refineries, many of you are aware that Phillips has historically had to purchase refined products to meet our jobbers' needs. With the expansion of our Sweeny refinery, we'll be in a better position to provide our customers their requirements from our own refineries. Nationwide, gasoline demand is expected to follow a declining or nearly flat trend. There are regional markets in the Midwest and Sunbelt that are expected to grow. We've operated in these markets for years and we plan to continue being a vigorous competitor. Furthermore, demand will continue rising for unleaded gasoline, along with other high-value products from our refineries such as diesel fuel and petrochemical feedstocks.

We also intend to expand our strength in petrochemicals both domestically and overseas. We were one of the first oil companies to diversify into this area, and we've been able to make money at it.

We're basically strong in four areas: the olefins, which are the building blocks for the chemical industry, cyclics for synthetic fiber manufacturing, specialty chemicals for selected markets and plastics.

For the future, we are going to broaden and expand our chemicals business. We plan to grow in those areas in which we have the greatest technological expertise and the most favorable market position.

One of the traditional strengths of Phillips chemicals business is our ability to supply it with adequate raw materials produced *within* the company. Our internal operations provide more than two-thirds of the feedstock needs of our domestic chemical facilities, largely in the form of natural gas liquids. We are the largest producer of NGL in the United States. We intend to maintain and build upon this strength. On down the road, we're looking at ways to use our lignite reserves as a future chemical feedstock. In all of our chemical operations — from carbon black to plastics — we're developing plans to increase our efficiency and profitability.

As we survey the projects in our capital plans over the next few years, we anticipate that we will be making full use of our strong financial position. We have a multitude of projects that will require huge investment, including: expansion in our chemicals business, development of the Maureen, T-Block and possibly Ivory Coast fields, exploration and development in the Overthrust Belt and offshore United States and commercializing our lignite, oil shale and geothermal holdings.

Phillips has excellent cash generation from operations which, when combined with our significant untapped borrowing potential, places us in a good position to meet our operating goals.

We're often asked if Phillips has any interest in making acquisitions.

Our answer is this: Our primary interest is in making investments in petroleum and chemicals. We will consider an acquisition if we think it's attractive for the company and the shareholders. A prime consideration in any acquisition opportunity would be the extent to which synergism would exist be-

One of Phillips most popular plastic products is Driscopipe, produced at this plant in South Carolina and in five other spots in the U.S. and Canada. The polyethylene pipe can manufactured with less energy than it takes to produce conventional pipe material.

tween the two companies.

In meeting our operating goals, we're also going to further strengthen our safety programs. Profits notwithstanding, we strongly feel that safety comes first. The primary objective of our management is to maximize earnings on their shareholders' capital. But *not* at the expense of jeopardizing the personal welfare of Phillips people or risking damage to the company's equipment and facilities.

Over the past 10 years, Phillips has grown a great deal. In the process, we've seen an increasing need to re-evaluate our safety procedures and the management of our safety effort. We're doing both.

Another area we are continually evaluating is our personnel needs. Today our company — as well as the entire petroleum industry — finds itself limited by the most important resource of all: People.

In making decisions on any major project, one of the first questions we find ourselves asking is: Do we have the people to do the job? We simply have more opportunities — more challenges — than we have people, qualified people, with a broad range of skills.

Right now, we have the most intensive in-house training program in our company's history and one of the strongest recruiting efforts ever.

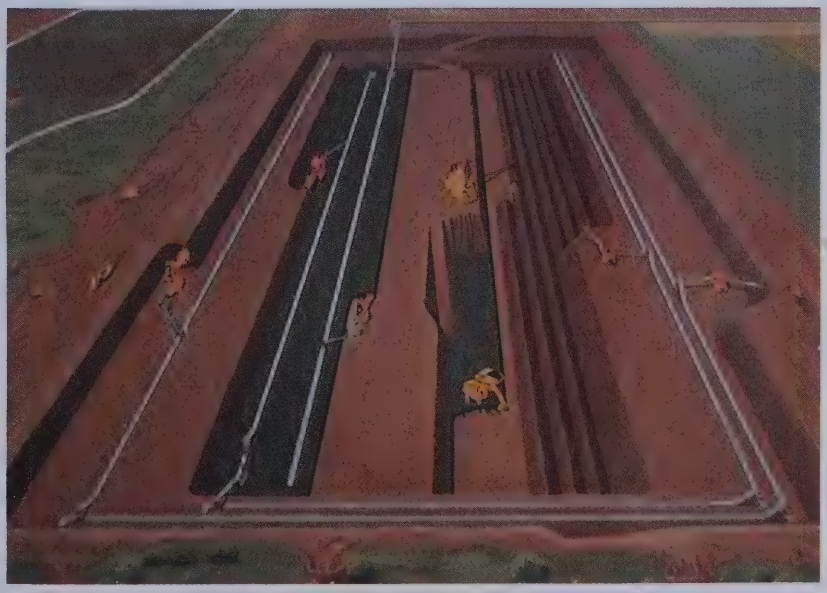
Recently we also made a move in our senior management which we believe will better prepare key people to assume greater responsibilities down the road and assure continuity of top management in the years ahead.

These changes do *not* reflect a change in corporate direction or emphasis. Instead, they will help ensure strong future leadership for the company and better prepare us for changing conditions in the worldwide energy scene.

Finally, we're working to improve our communications effort. Major corporations like Phillips have to develop the capability to relate to the external world, to understand what it is the public is looking for from the corporations in our society and to interpret the corporation in light of public objectives. Our corporate relations activities have been consolidated under a single senior executive to strengthen our ability to relate to the general public, to state and federal governments, the media and our employees and shareholders. Human relations and communications have always been important but they're going to be *essential* for the future.

This pretty well wraps up the thoughts I felt would be of interest to you. Obviously there are many factors that could affect our plans. Nevertheless, we feel we're in a position to continue to grow and strengthen. We have a secure financial base, some of the most capable and experienced people in the petroleum industry and a record of being able to get the job done.

BACK COVER: Outlined against the setting sun is an exploratory well about 60 miles off the coast of Corpus Christi, Texas, in the Gulf of Mexico. This well is in more than 200 feet of water and has drilled nearly 10,000 feet since going into operation around the first of October.



An artist's conception shows how Phillips intends to mine its extensive reserves of lignite coal in northwest Louisiana. After the coal is removed, heavy equipment is used to replace rocks and soil and prepare the land for future use.

COMMENTARY

EMOTIONS ON ENERGY HINDER UNDERSTANDING

Public understanding about energy issues is being hindered by emotional arguments based on unfounded fears and false hopes, said Wm. C. Douce, Phillips president and chief executive officer.

Douce told the Oklahoma Society of Professional Engineers that a cool, logical discussion about energy is a rarity in today's climate. "In today's highly politicized environment, emotionalism too often overruns common sense," Douce said.

Douce told the engineers that they can help the public understand that disaster doesn't lurk in every nuclear plant or oil shale development. He also emphasized that there are no overnight solutions, no pie in the sky, no quick fixes.

Instead, Douce said, "Solving the energy problem is not a matter of resources, but a matter of national determination. The energy challenge can be met with work by industry, cooperation by government and support by the public."

OIL INDUSTRY MUST TAKE POSITIVE ATTITUDE

The oil industry's exclusive concern used to be finding, producing and selling petroleum, but that has changed, said Phillips Chairman W. F. Martin.

"Oil company people have had to go beyond the 'nuts and bolts' of the business. We have had to recognize that public opinion plays as much a role in our success or failure as where we drill or how much we have to invest," Martin told the Oklahoma Petroleum Council.

"At times it seems a lot easier to get oil out of a hostile exploration area than it is to get a favorable opinion out of a hostile public," he said.

However, Martin added, "people are still willing to listen. They need hope, encouragement and a positive attitude. People need to hear that there is an attainable, practical alternative to continued overdependence on foreign oil.

"We need to concentrate not on what we could have done in the past without the restraints we experienced, but on what we are doing now and can do in the future if the nation will make its markets free and its environmental rules reasonable," Martin told the oil industry group.

U.S. MUST FORGE NEW ENERGY ALLIANCE

The United States must forge a new alliance — an alliance of the Americas — to ensure adequate supplies of affordable energy, said Charles M. Kittrell, Phillips executive vice president.

"The Western Hemisphere, North America and Latin America, together have all the ingredients on hand for a nearly self-sufficient energy partnership that would serve the best interests of us all," Kittrell told the U.S. Food and Energy Council.

Kittrell said, "Canada, Mexico and Venezuela have the energy resources, but they need the technical expertise of American exploration and production know-how. All that's needed to bring these two resources together is resolution of political considerations.

"You'd have not only a reduced vulnerability to the supply uncertainties of the Middle East, but just as importantly a solid, tight-fisted program to temper OPEC's present power to enforce unpredictable, radical price increases," he added.

CONSOLIDATED STATEMENTS OF INCOME

	Thousands of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	1980	1979	1980	1979
Revenues:				
Sales and other operating revenues	$3,154,885	$2,448,863	$9,599,259	$6,555,217
Equity in earnings of nonsubsidiary companies	10,996	(4,155)	24,608	12,392
Other revenues	58,239	51,307	214,594	132,352
	3,224,120	2,496,015	9,838,461	6,699,961
Costs and expenses:				
Costs and operating expenses	2,133,128	1,606,238	6,218,634	4,306,391
Selling, general and administrative expenses	105,729	87,950	298,690	257,758
Depreciation, depletion, amortization and retirements	144,187	173,890	510,496	483,717
Taxes other than income taxes	81,487	39,134	217,535	107,765
Interest and expense on indebtedness	25,405	23,971	78,940	71,248
Provision for income taxes	450,806	371,805	1,731,525	888,452
	2,940,742	2,302,988	9,055,820	6,115,331
Net income	$ 283,378	$ 193,027	$ 782,641	$ 584,630
Net income per common share	$ 1.86	$ 1.25	$ 5.12	$ 3.79
Average shares outstanding (in thousands)	152,179	154,428	152,835	154,427

CONDENSED CONSOLIDATED BALANCE SHEETS AT SEPTEMBER 30

	Thousands of Dollars	
	1980	1979
Assets:		
Cash and marketable securities	$ 1,637,957	$1,288,908
Accounts and notes receivable	1,610,544	1,258,230
Inventories	806,274	551,470
Prepaid expenses and other current assets	96,696	55,873
Total current assets	4,151,471	3,154,481
Investments and long-term receivables	334,589	226,921
Properties, plants and equipment — net	5,428,452	4,513,909
Deferred charges	109,571	108,233
	$10,024,083	$8,003,544
Liabilities and stockholders' equity:		
Accounts and notes payable	$ 1,235,575	$1,033,032
Long-term debt and obligations due within one year	71,505	79,481
Accrued taxes	2,077,192	1,229,645
Deferred income taxes	—	6,073
Other accruals	109,247	79,895
Total current liabilities	3,493,519	2,428,126
Long-term debt	680,154	631,815
Other long-term liabilities	220,952	133,037
Obligations under capital leases	83,110	105,180
Accrued contingent liabilities	165,362	180,888
Deferred income taxes	531,590	416,145
Other deferred credits	119,067	92,994
Minority interest in consolidated subsidiaries	11,465	10,573
Stockholders' equity	4,718,864	4,004,786
	$10,024,083	$8,003,544

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Thousands of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	1980	1979	1980	1979
Funds provided from operations amounted to	$462,869	$ 386,020	$1,371,967	$1,128,649
While funds were expended for:				
Properties, plants and equipment	384,201	464,370	1,115,454	1,025,125
Investments	13,401	5,320	89,677	8,398
Reduction of long-term borrowings	4,484	32,385	46,386	61,943
Dividends to company stockholders	68,480	54,049	206,410	154,427
Purchase (sale) of company stock	181	—	114,594	(15)
Other	4,104	16,003	29,440	20,401
	474,851	572,127	1,601,961	1,270,279
Which left a deficiency of	11,982	186,107	229,994	141,630
Additional funds were provided from:				
Long-term borrowings	27,845	249	63,786	861
Property sales and retirements	11,727	22,199	47,649	36,812
Sales of investments	14,572	25,809	55,746	31,998
Other	11,431	(11,010)	12,743	7,437
	65,575	37,247	179,924	77,108
Which resulted in increased (decreased) working capital of	$ 53,593	$(148,860)	$ (50,070)	$ (64,522)

SELECTED FINANCIAL DATA

Summary of net income:				
Petroleum exploration and production				
United States	$157,027	$ 64,334	$ 457,659	$ 199,804
Outside United States	81,828	52,780	225,934	135,981
	238,855	117,114	683,593	335,785
Petroleum refining, marketing and transportation				
United States	18,502	14,152	(31,749)	88,911
Outside United States	5,258	15,395	37,310	36,343
	23,760	29,547	5,561	125,254
Worldwide petroleum	262,615	146,661	689,154	461,039
Worldwide chemicals	9,651	48,533	89,540	128,466
Other †	11,112	(2,167)	3,947	(4,875)
	$283,378	$ 193,027	$ 782,641	$ 584,630
Return on average total assets			11.4%	10.9%
Return on average stockholders' equity			23.7%	20.8%
Capital expenditures — properties, plants and equipment:				
Petroleum operations — U.S.	$203,238	$ 307,091	$ 579,070	$ 593,627
Petroleum operations — Outside U.S.	104,438	106,724	299,796	274,401
Worldwide chemicals	40,677	25,274	114,317	83,846
Other	23,214	20,982	75,430	58,916
Corporate	12,634	4,299	46,841	14,335
Exploration costs	77,920	112,151	264,006	287,056
Foreign currency translation (gains) losses	3,539	17,946	7,733	18,776

†Other includes equity in earnings of nonsubsidiary companies, coal, uranium, geothermal and other corporate items.

OPERATING HIGHLIGHTS (liquids in thousands of barrels per day)

United States:				
Crude oil produced	121	121	121	121
Natural gas liquids produced	152	145	149	141
Natural gas produced (net millions of cubic feet daily)	856	1,064	941	1,110
Crude oil refined	257	286	257	293
Petroleum products sold	434	396	433	449
Europe-Africa:				
Crude oil produced	143	159	168	159
Natural gas liquids produced	11	10	13	5
Natural gas produced (net millions of cubic feet daily)	441	449	547	473
Petroleum products sold	28	50	46	43
Other areas:				
Crude oil produced	5	5	5	7
Natural gas produced (net millions of cubic feet daily)	—	—	—	1
Petroleum products sold	2	9	1	3

This well southeast of Phoenix is drilling through granite to a projected depth of 20,000 feet. It is located on newly acquired acreage which may contain the same oil and gas formations found in the nearby Overthrust Belt. (see related story on page 2).

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004

Bulk Rate
U.S. Postage
PAID
Permit No. 717
Tulsa, Okla.

Highlights

	Thousands of Dollars Except as Indicated		
	1980	1979	1978
Financial			
Total revenues	$13,712,900	9,744,800	7,421,900
Net income	$ 1,069,600	891,100	718,100*
Net income per average share outstanding	$ 7.01	5.77	4.66*
Return on average total assets excluding gain on sale of Pacific Petroleums Ltd.	11.5%	12.0	9.0
Return on average total assets including gain on sale of Pacific Petroleums Ltd.	11.5%	12.0	11.8
Total taxes charged to income (see Note 10 of notes to financial statements)	$ 2,473,605	1,394,944	1,104,145
Total taxes per share	$ 16.20	9.03	7.17
Dividends paid	$ 274,900	208,500	184,800
Dividends per share	$ 1.80	1.35	1.20
Average shares outstanding (in thousands)	152,670	154,427	153,987
Capital expenditures	$ 1,666,100	1,453,700	940,200
Total assets at year-end	$ 9,844,400	8,518,700	6,833,600

**Includes net income of $169,900 or $1.10 per share from sale of Pacific Petroleums Ltd. stock.*

	Net Barrels Daily		
Operating			
Crude oil produced			
United States	120,000	121,000	125,000
Outside United States	169,000	167,000	185,000
Natural gas liquids produced	163,000	148,000	134,000
Total liquids produced	452,000	436,000	444,000
Crude oil refined	262,000	287,000	302,000
Petroleum products sold	509,000	508,000	516,000
	Net Thousands of Cubic Feet Daily		
Natural gas produced	1,497,000	1,558,000	1,549,000

"Phillips," "the company," "we" and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The company's consolidation policy is to include in financial statements the accounts of companies in which more than 50 percent interest is held, except for an insurance company and a credit company.

Marlex, Convocan, Supac, Ryton, K-Resin, Petromat, Poly Slik, Garden Scene, Ultrakan, Solprene and Dura Craft are trademarks for the company's products named in this report.

To the Owners:

Phillips Petroleum Company took major steps during 1980 to implement a strategy designed to cope with the coming decade of continued international tensions, uncertain oil supplies and rising costs. Key elements of our strategy include:

- A greatly expanded commitment to find and produce oil and natural gas in the United States.
- A continued effort to broaden overseas petroleum production, building on our strong position in the Norwegian North Sea.
- A growing involvement in developing alternate fuels, particularly coal and oil shale.
- An increased flexibility in refinery operations to handle a diversity of raw materials and to respond to shifting product demand.
- A selective expansion in chemicals and enlarged participation in the international chemicals market.

Implicit in our strategy for the '80s is the expectation of continued growth in earnings. Phillips earnings increased in 1980 for the fifth successive year, reaching $1.07 billion, or $7.01 a share, on revenues of $13.71 billion. These results represented a 20 percent increase over 1979 earnings of $891 million, or $5.77 a share, on revenues of $9.74 billion. Return on average total assets was 11.5 percent in 1980, slightly lower than the 12 percent earned in 1979.

Higher prices for oil and natural gas and increased production in the Norwegian North Sea were the principal factors behind the growth in 1980 earnings. These developments more than offset lower results in petroleum refining, marketing and transportation operations and in our chemicals business.

Our strong financial showing enabled Phillips to increase its quarterly stockholder dividend 22 percent from 45 cents a share to 55 cents a share with the March 2, 1981, dividend.

Phillips steady rise in earnings also provided the basis for an expanding capital expenditure program. In 1980 Phillips spent a record $1.67 billion—an average of $4.6 million a day—to find and develop energy resources, and expand and modernize refining, chemical and transportation operations. About 70 percent of these were U.S. expenditures.

In 1981 spending for authorized projects is expected to increase with a capital budget of $3 billion, a 20 percent increase over the cost of projects authorized in 1980.

Highlights of 1980

During 1980 Phillips made the largest commitment in the company's history to energy development in the United States. We increased our U.S. acreage by 50 percent during the year, boosting our overall position to nine million net acres, or about 14,000 square miles. Phillips current U.S. acreage is nearly double the amount the company held 10 years ago.

We increased domestic spending on seismic activity by nearly 60 percent and drilled or participated in 816 wells in 1980, a one-third increase over 1979. Overall, our exploratory effort stretched from the coastal areas of California to the Rocky Mountain states to the bayous of Louisiana and into the Atlantic.

Overseas, 1980 marked the first full year of production from all seven fields in the Greater Ekofisk area of the Norwegian North Sea. The Ekofisk area fields will remain a key element of Phillips worldwide operations and a significant source of income for many years to come. Ekofisk area production, which is now declining, is expected to be supplemented in the future by production from other prospects, including some in the North Sea and Africa.

One of the most important prospects for new oil production is the Republic of the Ivory Coast. Phillips

Net Income Per Share

1980	$7.01
1979	5.77
1978	4.66
1977	3.46
1976	2.70

Capital Expenditures (Millions of Dollars)

1980	$1,666
1979	1,454
1978	940
1977	1,078
1976	716

has drilled two successful exploratory wells offshore the Republic of the Ivory Coast and a third well is in progress. Engineering studies for production systems are under way on the premise that the discovery will become a commercially attractive operation. Also under evaluation are oil and natural gas discoveries in the North Sea, Ghana and the Canadian Arctic Islands.

The year 1980 was one of vigorous activity in a field of growing emphasis for Phillips—the development of non-petroleum resources. During 1980 we strengthened our position in lignite coal with the signing of a second major contract to serve electrical utility markets. The year also marked Phillips entry into its first commercial geothermal venture as well as its first commercial involvement in the solar energy field.

To meet changing needs in our refinery operations, Phillips completed the construction phase of a major modernization of the Sweeny, Texas, refinery during the year and announced plans for a similar modernization at our Borger, Texas, refinery. Modernization of these refineries will allow us to process lower grade, less expensive crude oil and will help maintain the profitability of these operations in the face of flat or declining product demands.

In our chemicals business, we moved to strengthen the major product lines which are showing the most growth—ethylene, plastic resins and specialty chemicals. We also reinforced our position as an international chemicals supplier.

Management changes and organizational restructuring were also part of our preparation for the future. During the year, W.F. Martin, who will retire in April 1982, relinquished his position as chief executive officer, while continuing as chairman of the board. Wm. C. Douce, president and chief operating officer, was elected president and chief executive officer. The company's organizational structure was changed and additional executive positions were created to better handle the increasing size and complexity of the company's operations and to help assure strong leadership in the years ahead.

The Years Ahead

The energy outlook for the coming decade will be plagued by price and supply uncertainties stemming from international tensions. Those tensions erupted in 1980 in the war between Iran and Iraq, giving Americans a fresh reminder that foreign oil supplies remain vulnerable and subject to interruption.

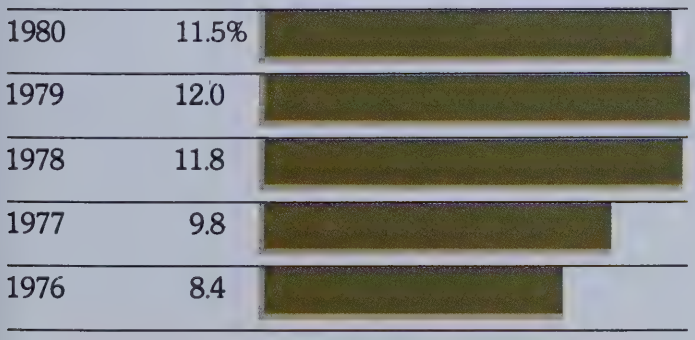
A major step toward protecting the United States from future oil shocks was taken in January of this year with the federal government's decision to lift controls on domestic crude oil earlier than scheduled. The removal of controls reflects a return to greater reliance on market forces to encourage development and careful use of energy supplies.

Even before the government's decision to remove controls early, the industry was responding strongly to partial decontrol. Nearly 63,000 wells were drilled in the United States during 1980, an all-time high. It is anticipated that record will be surpassed in 1981 with an estimated 69,000 wells expected to be drilled.

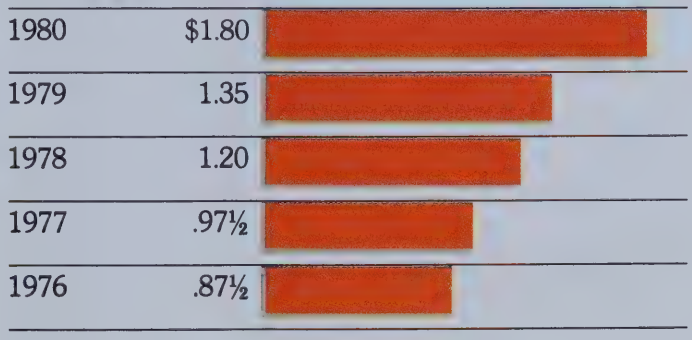
In addition to decontrol, other important energy policies are expected to receive careful consideration by the government this year. Key issues include legislation covering air emissions and the use of public lands for energy exploration and development.

Current air quality rules limit development and use of important U.S. energy resources, particularly coal. Congress and the administration will have an opportunity to review some of these rules this year, including the critical provisions of the Clean Air

Return on Average Total Assets



Dividends Per Share



Act. Out of this review may come a better balance between the need to protect environmental values and the need to utilize all our energy resources.

Much of the energy and mineral potential of this country lies beneath land and waters controlled by the federal government. At the present time, use of many of these areas is limited to recreational purposes and scenic preservation. New policies are needed that would allow more resources in federal lands to be mobilized as part of the effort to reduce America's vulnerability to cut-offs in foreign oil supplies.

The years ahead will continue to offer sizable challenges that will test the resourcefulness and determination of the American people and our nation's industry. Much of the country's attention will be focused on developing new energy sources and making wiser use of existing ones.

Unquestionably, the United States is making progress in confronting the energy problem. There is increasing support of conservation as an effective and immediate means of improving U.S. energy sufficiency. There is growing awareness that America's energy resources—including its untapped resources of oil and natural gas—should be more fully developed. There is renewed confidence in market forces as the most powerful incentive to energy innovation and development. Finally, there is growing recognition that the responsibility for meeting the energy challenge cuts across all sectors of society—from the individual consumer to the largest segments of government and business.

As part of the industrywide effort, Phillips is devoting the major portion of its financial and human resources toward helping develop meaningful, affordable solutions. We are optimistic that America's energy position will be strengthened. A solid foundation has been laid. We are confident the petroleum industry will help build upon that foundation and accelerate progress toward a more secure energy future.

For the Board of Directors,

W. F. Martin
Chairman

Wm. C. Douce
President and
Chief Executive Officer

March 24, 1981

W. F. Martin

Wm. C. Douce

The Increasing Impact of Taxes

Although scarcely noticed by the public, increasing taxes on petroleum operations are having a direct impact on the consumer's pocketbook as well as a long-term effect on the development of adequate energy supplies.

In recent years, taxes on the oil industry have been increasing dramatically. In 1975 income taxes took 55 cents out of every dollar of Phillips pretax income. In 1980 they took 67 cents. From 1979 to 1980 Phillips total income tax bill rose 74 percent to $2.17 billion, although earnings increased only 20 percent.

Phillips total tax bill—income taxes plus a variety of other taxes—amounted to $16.20 a share in 1980, up from $3.35 a share in 1975. By contrast, earnings per share increased from $2.20 to $7.01 between 1975 and 1980. The overall increase in total taxes since 1975 was 385 percent, while the increase in company profits during the same period was considerably less—219 percent. The percentage of increase in taxes since 1975 has also exceeded the increase in payroll costs, up 92 percent; the cost of crude oil delivered to company refineries, up 206 percent, and the wholesale price of gasoline, up 191 percent.

The impact of higher taxes on Phillips was felt particularly in 1980, when the United States imposed a new tax on the oil industry and Norway increased its income tax rate. The U.S. excise tax on domestic crude oil (often but inaccurately called a windfall profits tax) reduced Phillips net income by $62 million. The Norwegian income tax increase reduced Phillips net income for the year by $185 million.

The next major tax jump is likely to come in Great Britain, where the government has proposed adding yet another supplemental tax on North Sea oil production.

National governments are not the only ones which have recognized the revenue potential of oil industry taxes. Many state governments in this country have found or are exploring for new ways to tap oil company revenues.

In 1980, four states adopted additional taxes on oil companies operating within their borders. Tax legislation aimed specifically at oil companies was introduced in another seven states.

This expanding tax burden makes even more challenging the job of providing the energy that will be needed in the future. Money taxed away is money that is not available to the industry for finding and producing energy. In 1981 alone, for example, the so-called windfall profits tax on the petroleum industry is expected to channel an additional $18.7 billion into the U.S. Treasury. This is more money than it cost to build the entire Trans-Alaska Pipeline. And it nearly equals the $19 billion the 25 largest petroleum companies used in 1980 for finding and producing oil and natural gas in the United States.

Energy is needed for industry, commerce, agriculture and day-to-day living. Oil companies have the key responsibility for providing it, and this job requires the generation and investment of enormous amounts of capital. How much of that capital can be drained away through new and increased taxes without hampering the industry's ability to supply the world's energy needs? This is a public policy question that needs to be addressed by every responsible taxing authority.

Phillips Energy Resources: A World View

In 1980 Phillips initiated the largest capital expenditure program in the company's history. Some $1.1 billion went into obtaining new energy supplies. In the United States, the company increased its total acreage by 50 percent and began new drilling activity in California's Santa Barbara Channel and in Arizona. Exploratory drilling continued in the Tuscaloosa Trend of Louisiana and in the Gulf of Mexico. At the end of the year, plans were under way to begin drilling on newly acquired acreage in Alaska's Beaufort Sea. Also on the North American continent, the company drilled in the deep-water area of the Canadian Arctic and in the Alberta foothills, which is a continuation of the U.S. Rocky Mountain Overthrust Belt. The first phase of a pilot project to develop the company's reserves of heavy oil sands in Alberta was also completed. Overseas, Phillips drilled in the deep-water areas of the Philippines, Australia, Spain, Ireland and Ghana and continued its exploration and development program in the North Sea and Indonesia. A discovery off the Republic of the Ivory Coast in Africa was being evaluated at the end of the year.

In the United States, the company holds acreage from Alaska's Beaufort Sea to the Gulf of Mexico, and from the Georges Bank off the East Coast to California's Santa Barbara Channel. The company's energy program includes coal, uranium, geothermal and oil shale operations.

The company's search for energy in the United Kingdom and Norwegian sectors of the North Sea was extended to the waters off the coast of Ireland.

A discovery in Kalimantan highlighted the company's exploration program in Indonesia.

In Africa, Phillips had a discovery off the Republic of the Ivory Coast and drilled its fifth well off Ghana.

Phillips energy resources activities continue to be centered around the worldwide search for and development of petroleum. Simultaneously, the company is directing its efforts toward developing non-petroleum resources. These resources will increasingly supplement oil and natural gas as world energy demand continues to grow and as the United States moves closer to its goal of achieving greater energy self-sufficiency. Highlights of 1980 include:

- The largest U.S. exploration and production program in the company's history, including new drilling activity in frontier areas and a 50 percent increase in total Phillips U.S. acreage.
- Discoveries in Indonesia and the Republic of the Ivory Coast.
- First full year of production from all seven fields in the Greater Ekofisk Development.
- Pilot program to begin developing Canadian heavy oil reserves.
- Progress in developing the company's lignite coal, uranium, geothermal energy and oil shale holdings.

Net income from energy resources activities, which includes results from the company's coal, uranium, geothermal and oil shale operations plus equity in

earnings of affiliated companies related to energy resources operations, rose to $850 million from $475 million in 1979. The earnings increased primarily because of higher worldwide prices for oil, natural gas and natural gas liquids, and increased petroleum production. The effect of higher prices was partially offset in the United States by the U.S. crude oil excise tax, which amounted to $119 million in 1980. In Norway, new tax legislation increased the company's taxes in that country by $185 million in 1980.

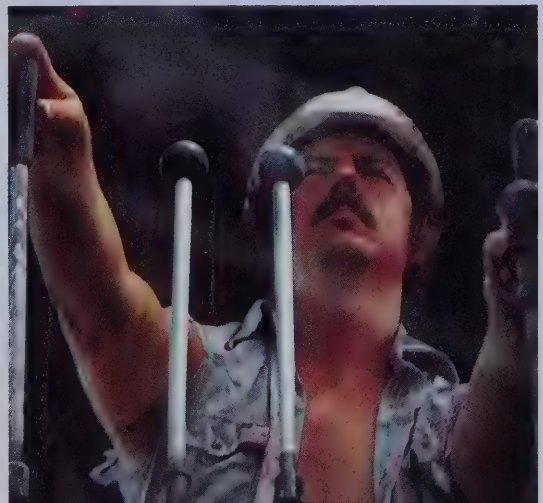
Increased production from the Greater Ekofisk area fields in the Norwegian North Sea raised Phillips worldwide petroleum production. Worldwide natural gas liquids production showed the strongest production gain, increasing 10 percent. Worldwide crude oil production was about the same as in 1979 and natural gas production declined 4 percent.

In 1980 petroleum exploration and production activities extended to 21 nations on five continents. Because of the company's expanded exploration program, dry hole costs in 1980 rose 59 percent to $185 million.

Phillips drilled or participated in 105 oil and natural gas exploratory wells, of which 59 were discoveries. This higher than normal success rate is attributable to shallow oil or natural gas discoveries made while evaluating oil sands acreage in Canada. Phillips participated in another 86 exploratory wells through farmout arrangements. Under such arrangements, other firms drill on Phillips acreage in return for an interest in the acreage and any future production.

Reserves

Phillips estimated worldwide proved reserves of crude oil, condensate and natural gas liquids decreased 17 percent to 1.02 billion barrels. Worldwide natural gas reserves declined 12 percent to 6.78 trillion cubic feet.



Phillips search for U.S. energy reached a record level in 1980 as drilling moved into new, frontier areas. Left, a wildcat well is drilled on leases off the coast of Corpus Christi, Texas, in water more than 1,000 feet deep. Above right, a drilling barge probes more than 20,000 feet into the Tuscaloosa Trend of Louisiana in search of natural gas. Right, a crane operator carefully stacks pipe on a drilling rig operating in the Gulf of Mexico off Louisiana.

A wildcat well is drilled in the Arizona desert between Phoenix and Tucson. Phillips first in the state. It was hoped that the well, the deepest ever drilled in Arizona, would pass through granite and reach the promising hydrocarbon-bearing formations of the Rocky Mountain Overthrust Belt. When the well remained in granite to a depth of 18,000 feet, it was terminated as a dry hole. Another exploratory well is scheduled to be drilled near Tombstone, Ariz.

In the United States, the company has access to additional reserves through contracts and other arrangements. At the end of 1980 these additional reserves of liquids totaled 355 million barrels, about the same as a year earlier. Additional U.S. reserves of natural gas totaled 2.15 trillion cubic feet at the end of 1980, 6 percent lower than the 2.28 trillion cubic feet reported in 1979.

Phillips year-end estimates of proved reserves are based on then current reservoir information, technology and economics. Such reserves, however, cannot be measured precisely. Revisions of previous estimates reflect the results of drilling and production performance in 1980 as well as technical re-evaluations of reservoirs.

Prices

Prices for crude oil, natural gas and natural gas liquids were higher in 1980 than the previous year. At the end of 1980, about 65 percent of Phillips crude oil production was under federal price controls, compared to 86 percent in 1979. Upper tier (subject to higher prices under controls) was 42 percent and lower tier was 23 percent. In early 1981 federal controls on crude oil prices were removed.

U.S. natural gas revenues rose 14 percent. In most instances prices rose at rates specified by federal price regulations. The company also received significantly higher prices for liquefied natural gas delivered under long-term contract to two Japanese utilities from a 70 percent interest liquefacation plant in Kenai, Alaska.

United States

In 1980 Phillips moved ahead with the largest U.S. exploration and development program in the company's history. The company drilled or participated in 816 wells in 1980, 36 percent more than the previous year. More development drilling and enhanced oil recovery projects increased production from older, existing fields. These mature fields, located primarily onshore, account for most of Phillips domestic production. In 1980 about 86 percent of oil production and 79 percent of natural gas production came from onshore fields. Crude oil production resulting from secondary and tertiary recovery methods accounted for 32 percent of the company's U.S. oil production. Secondary recovery uses water or gas injection to force more oil out of a

reservoir. Tertiary recovery is a more complex and expensive method where chemicals, steam or fluid is injected into the formation. Phillips is the operator of eight tertiary projects and is participating in another 12 partner-operated projects. Phillips tertiary production in 1980 averaged 2,600 barrels of oil a day.

Although environmental regulations continue to delay drilling in many offshore areas, by late 1980 Phillips was drilling on leases acquired in 1979 offshore California and in the Gulf of Mexico, and was preparing to drill offshore Alaska.

The company's total U.S. oil production was essentially the same as in 1979, although output from Alaska's North Slope rose 18 percent to an average of 26,700 barrels a day. This was 22 percent of Phillips total U.S. production.

Phillips U.S. natural gas production was down 12 percent, compared with a 5 percent decrease in 1979. The decline reflected an industry trend caused primarily by reduced market demand. Phillips continues to be one of the largest U.S. natural gas liquids producers as output rose 6 percent.

Phillips increased its U.S. acreage by approximately 50 percent in 1980. A major portion of the increase came as a result of the company acquiring a third interest in eight million acres of leases in Idaho, Utah, Arizona and New Mexico. The company also holds 1.8 million net acres in the nearby Rocky Mountain Overthrust region. This region extends all the way from Canada to Mexico and is believed by many to hold large oil reserves. In late 1980, one exploratory well was being drilled in Idaho. Overall, the company plans to drill or participate in five wells in the Overthrust region in 1981.

Also in the lower 48 states, Phillips drilled one unsuccessful exploratory well in the Tuscaloosa Trend of Louisiana, started two more wells and scheduled another well for 1981.

The company drilled five unsuccessful wells and participated in another unsuccessful well offshore Louisiana. In early 1981 Phillips participated in two other unsuccessful wells offshore Louisiana and completed another unsuccessful well off the Texas Gulf Coast.

An environmental suit delayed drilling in California's Santa Barbara Channel throughout most of 1980. By the end of the year, however, three drillships were in place and operating. Phillips has a 40 percent interest in the initial wells.

On the North Slope of Alaska, Phillips had a 21 percent interest in an unsuccessful exploratory well east of Prudhoe Bay. Another well in the area is partially evaluating one of the Beaufort Sea tracts acquired in a 1979 lease sale. Phillips has a 10 percent interest in this well.

In Alaska's Lower Cook Inlet, Phillips drilled its third unsuccessful well on acreage acquired in a 1977 lease sale. Phillips is planning no additional wells. In the past three years Phillips charged against earnings $189 million of the original $196 million lease cost.

Phillips continues to be one of the largest U.S. producers of natural gas liquids. This natural gas liquids extraction plant is under construction in the Austin Chalk Trend of southeast Texas, one of the busiest drilling areas in the United States. When completed later this year, the plant will be able to extract 620,000 gallons of gas liquids a day from 75 million cubic feet of natural gas. In 1980 the company's U.S. natural gas liquids production increased 6 percent.

Canada

In the deep-water area of the Canadian Arctic the company participated in a second well near the 20 percent interest Whitefish discovery, a major gas strike made in 1979. In early 1981 three wells were under way on other prospects.

In the Canadian Overthrust Belt, Phillips drilled two unsuccessful exploratory wells and was drilling a third well at the end of 1980. Seismic work also was under way in the area.

Phillips is evaluating two heavy oil sand areas in Alberta. The company has a 50 percent interest in one area and a 25 percent interest in the other. A one-well pilot project was completed in 1980 and a 10-well pilot project is scheduled for 1981.

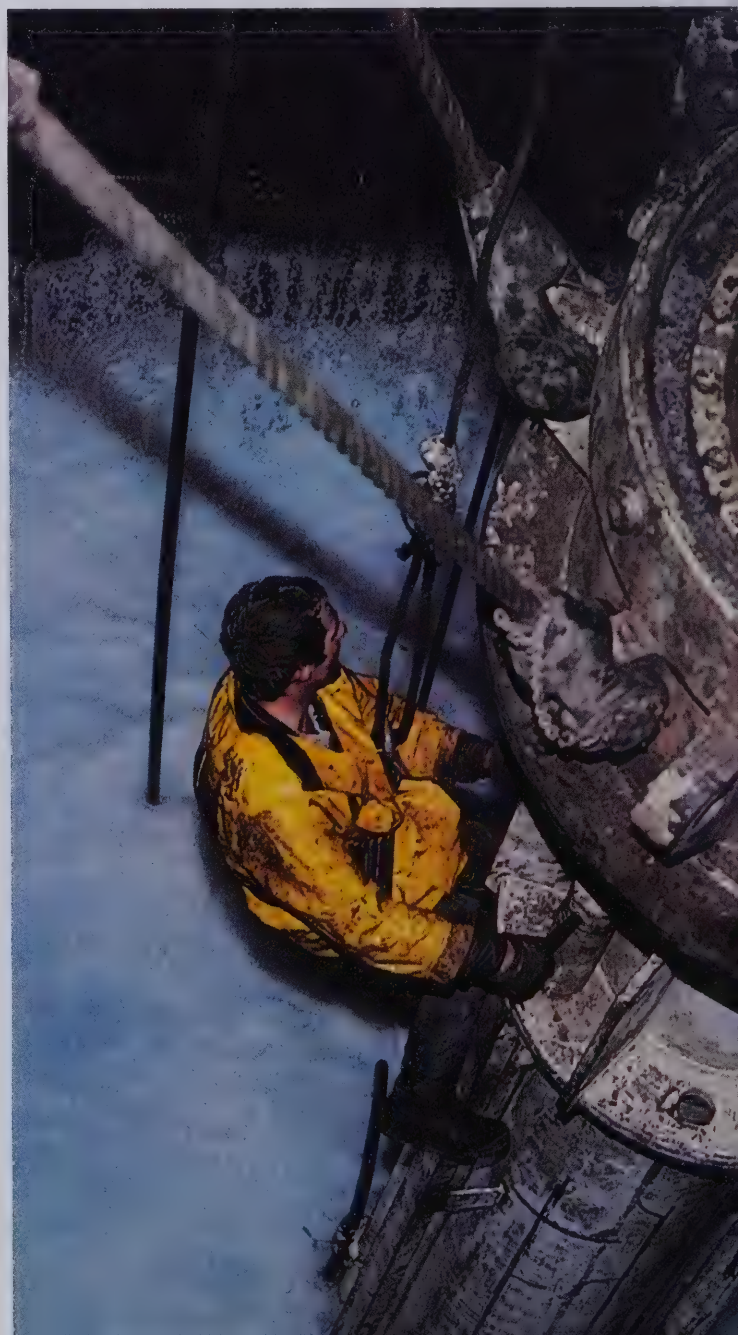
Norway

The Greater Ekofisk Development in the Norwegian North Sea continues to be the most important area of the company's worldwide energy resources activities. In 1980 Ekofisk oil, natural gas and natural gas liquids production accounted for 33 percent of the company's total energy production.

For the first time, all seven fields in Greater Ekofisk were in production for a full year. Also, 1980 was the peak production year for Greater Ekofisk. Crude oil production rose 9 percent over 1979 levels, natural gas liquids production was up 109 percent and natural gas production increased 17 percent. Phillips 37 percent share of crude oil production in 1980 averaged 130,100 barrels a day, 12,800 barrels a day of natural gas liquids and 449 million cubic feet a day of natural gas.

In early 1981 Phillips will begin a pilot waterflood project in the Ekofisk field to determine the feasibility of increasing the production of the field. A similar waterflood program is being studied for the Tor field, another Ekofisk-area field. Based on new studies completed in 1980, the company announced estimated reserves in Greater Ekofisk, including oil and natural gas already produced, were reduced to 2.9 billion barrels of oil and oil equivalents. The reduction, predominantly in liquids, lowered Phillips

Construction continues on a production and storage platform for the Maureen Field in the U.K. sector of the North Sea. In Hunterston, Scotland, one of three ballast and storage cylinders takes shape. Each cylinder is 240 feet high, 85 feet in diameter and can store up to 217,000 barrels of oil.



worldwide reserves by approximately 8.2 percent.

In other areas of the Norwegian North Sea, Phillips drilled three unsuccessful exploratory wells in 1980. Four wells are scheduled for 1981.

United Kingdom

Development drilling continues in the Maureen field in the North Sea, about 160 miles northeast of Aberdeen, Scotland. Oil production is expected to begin in the mid-1980s with gross output growing to about 75,000 barrels of oil a day. This will be Phillips first crude oil production in the United Kingdom sector of the North Sea. The company has a 34 percent interest.

To the northwest of Maureen, Phillips has a 35 percent interest in three discoveries known as the T-Block. Exploratory drilling is under way.

In 1980 the Hewett area natural gas fields, which were brought into production in 1968, produced an average of 105 million cubic feet a day of natural gas to the company's 19 percent interest.

Ivory Coast

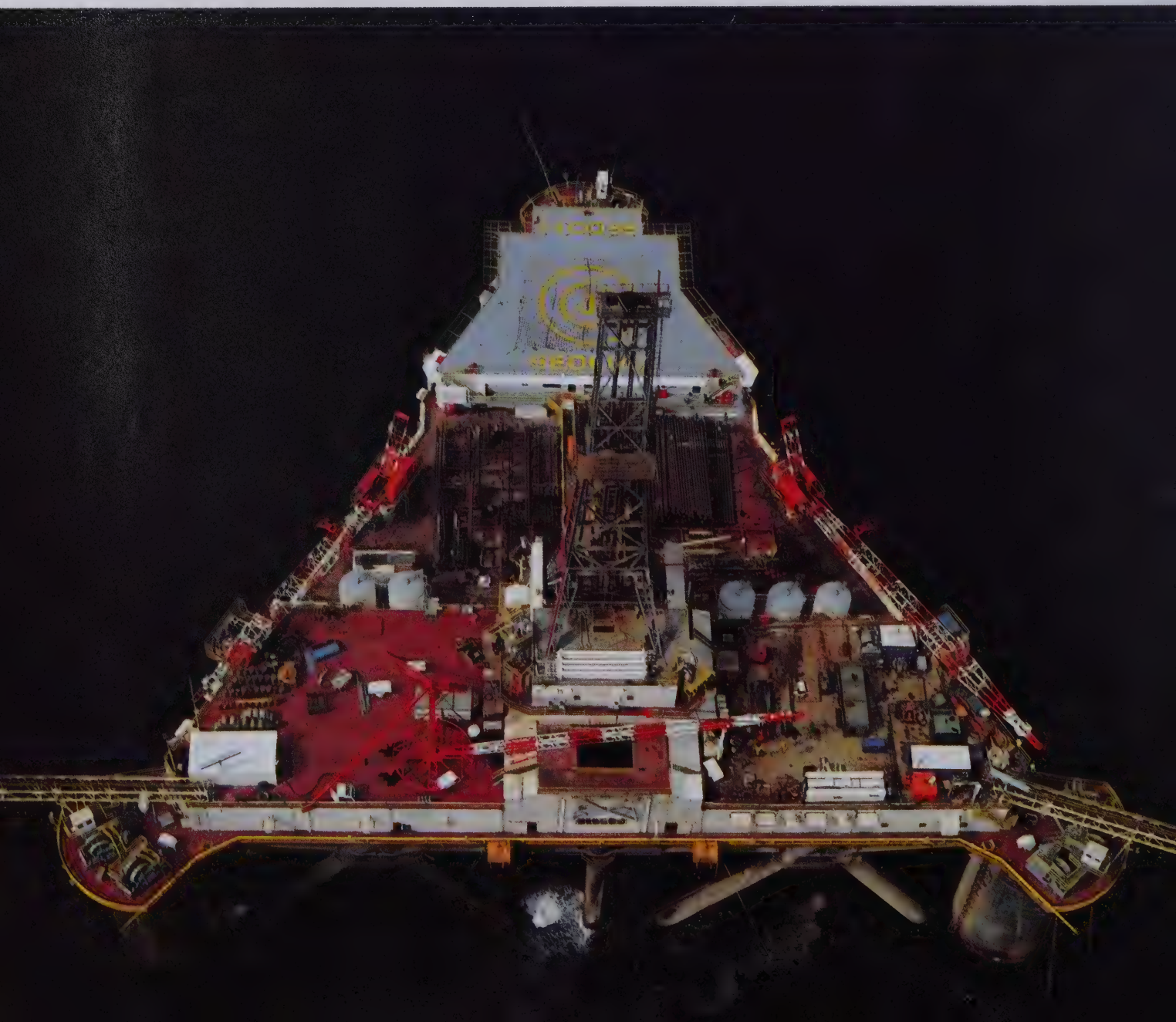
In 1980 Phillips drilled a discovery well in the

Drilling steps up in the waters offshore Western Europe. At left, the Bay of Biscay surges inches away from the feet of a roughneck working on the drillship's riser. The well was the first to be drilled by Phillips in deep waters off northern Spain. Above, appraisal drilling continues on the T-Block area in the U.K. sector of the North Sea, where Phillips has made three discoveries.

deep-water area off the Republic of the Ivory Coast. The well is located about 13 miles offshore in approximately 1,200 feet of water. A second well drilled nearby confirmed the presence of oil-bearing sands apparently equivalent to some of those found in the discovery well. Both wells are located in contract area A-B under a production sharing contract with the Republic of the Ivory Coast granted in 1975. Under the contract, varying portions of production are allocated to the Ivory Coast government as its share prior to determining the contracting group's share of which the company's interest is 57.5 percent. In early December another well was being drilled in the area, and two more rigs were scheduled to begin drilling in early 1981. The company is moving ahead on engineering studies to prepare for possible commercial production.

Nigeria

Phillips continued development drilling in its 19 oil fields in Nigeria and had a 20 percent interest in an exploratory well. In 1980 a field in which Phillips has a 20 percent interest began producing. Because of the Nigerian government's 1979 decision to cut back



production and boost government ownership, net output declined 18 percent to an average of 30,600 barrels of oil a day.

Indonesia

In December three rigs were drilling in Northeast Kalimantan, where the company had a discovery in 1980. Net production from the area averaged 2,600 barrels of oil a day, and on Salawati Island net production averaged 2,300 barrels of oil a day. Two unsuccessful exploratory wells were drilled on the 3.7 million acre Teluk Berau contract area offshore Salawati Island, where Phillips has a 50 percent interest. Another well was under way at the end of the year. On East Irian Jaya, where Phillips also has a 50 percent interest, a crew is conducting seismic work on 3.8 million acres acquired early in the year. Phillips also has a 50 percent interest in 5.5 million acres on the southern coast of Irian Jaya where seismic work is scheduled for 1981.

Other Exploratory Areas

In South America the company completed seismic operations in the Cesar Basin of Colombia and in December a well was being drilled. This is the third well to be drilled in the contract area. Seismic work also was completed offshore Chile. An exploratory well is planned in 1981.

The company has a 20 percent interest in an eight million acre area off the northwest coast of Australia. Two dry holes were drilled on the acreage in 1979 and a third well was under way late in 1980. Phillips also has a third interest in 1.6 million acres off the southern coast of Australia. Drilling is set for late 1981.

At the end of the year a rig was drilling on acreage offshore Ghana where five wells have been drilled. A discovery was made in 1978. Another three wells are planned. Phillips has a 50 percent interest in this area.

Phillips, as operator for a group of companies, completed seismic work off the southern coast of the People's Republic of China. In 1981 Phillips may have the opportunity to bid on evaluated tracts.

Phillips is one of 10 U.S.-based petroleum companies participating in the initial phase of a $700 million National Science Foundation program. The purpose of the program is to evaluate the geological makeup beneath the ocean floor. These evaluations will be made over a 10-year period. A specially equipped drillship is expected to begin making operating tests sometime in 1984.

This semisubmersible rig, left, drills in the waters off the Republic of the Ivory Coast, where Phillips has drilled two successful exploratory wells. Above right, workers are lifted to the drilling rig deck after unloading a supply boat. Right, a worker climbs toward the main deck of a semisubmersible rig conducting further drilling in the area.

Coal

Phillips signed a contract to supply a utility from a second lignite coal mine to be located near Shreveport, La. Deliveries are scheduled to begin in 1985. Deliveries from the company's first mine, also to be located near Shreveport, are expected to begin in late 1984. Combined production from the two mines is estimated to be 15 million tons a year by the early 1990s. Phillips holds estimated reserves of more than eight billion tons of lignite coal in seven Gulf Coast states. Also, the company is a participant in a coal liquefaction pilot plant that began operating in 1980.

Other Energy Sources

At the end of 1980 the sinking of a production shaft and a ventilation shaft was near completion at Phillips uranium ore mine in northwest New Mexico. Plans for developing the reserves in the area have been revised to reflect the slowdown in the nation's nuclear power program. The need for a second production shaft, partially completed, has been eliminated because of a land exchange agreement.

Phillips signed a contract in 1980 with a utility company in Utah for the sale of steam produced from the company's Roosevelt Hot Springs geothermal field. First deliveries of geothermal energy are scheduled in 1983. The company is evaluating the commercial potential of three other geothermal discoveries in Nevada and one in California.

The company is a participant in the White River Shale Project in northeastern Utah, covering some 12,000 acres. The first phase of the project, planned for the mid-1980s, is to produce 9,000 barrels of oil a day from oil shale.

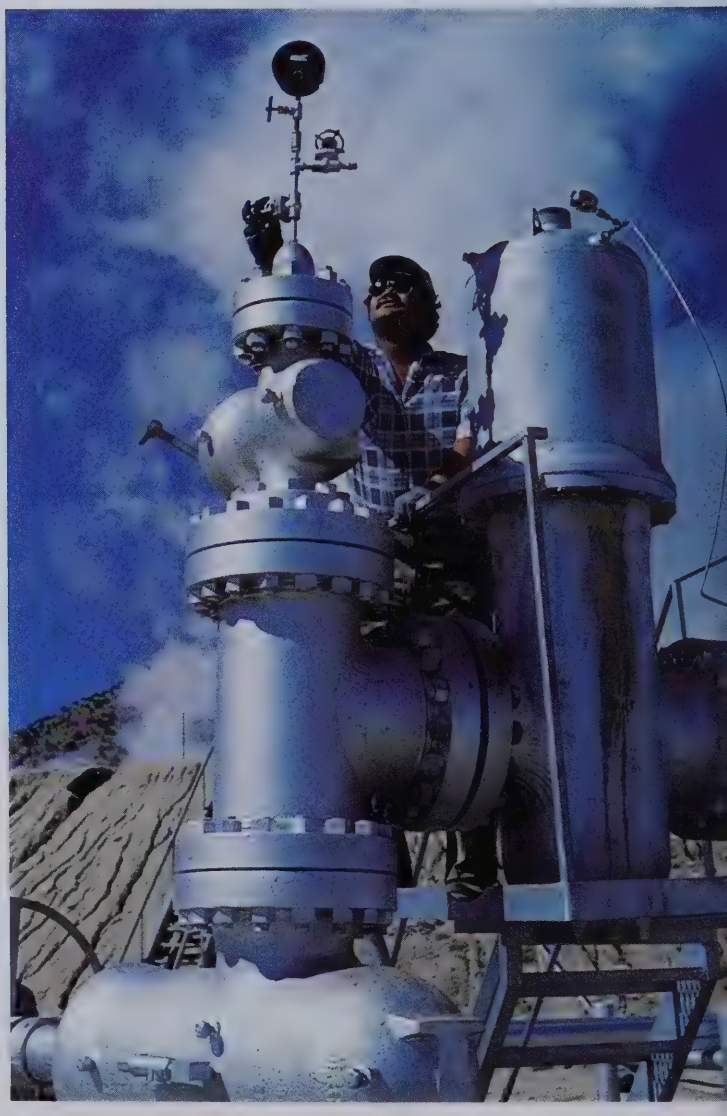
Outlook

In the United States, the company will continue to concentrate its petroleum exploration effort in Alaska, the Rocky Mountain Overthrust Belt, the Gulf of Mexico, California's Santa Barbara Channel and other areas of the Outer Continental Shelf. These are considered to be the most promising prospects for new, large domestic discoveries. Outside the United States, the company will continue to explore in the United Kingdom and Norwegian sectors of the North Sea, the Republic of the Ivory Coast, Ghana, Indonesia, the deep-water areas of the Philippines and Australia, western Africa and Canada.

At the same time, Phillips intends to be an important force in developing other energy resources, primarily coal, geothermal and oil shale. These are the energy sources that will supplement petroleum as the world moves towards the 21st Century.

Phillips sees its production of petroleum liquids and natural gas declining slightly in 1981, primarily because of anticipated lower overseas production. Phillips domestic oil production is expected to show a slight decrease, natural gas liquids output will increase slightly and U.S. natural gas production is expected to continue its downward trend.

To supplement oil and natural gas for the future, Phillips is moving ahead now to develop non-petroleum fuels. In Roosevelt Hot Springs, Utah, production and test facilities are in place at the site of Phillips first commercial geothermal venture.



Net Crude Oil and Natural Gas Liquids Production	Barrels Daily				
	1980	1979	1978	1977	1976
Crude Oil					
United States	120,100	121,400	125,000	117,000	115,300
Europe-Africa	164,000	160,600	161,700	136,700	131,400
Other areas	—	—	5,400	5,600	5,900
Production sharing contract	4,900	6,100	18,300	5,600	—
Total Crude Oil Production	289,000	288,100	310,400	264,900	252,600
Natural Gas Liquids					
United States leaseholds	33,500	37,900	34,900	39,300	36,200
United States plants	116,100	103,700	98,900	98,900	94,600
	149,600	141,600	133,800	138,200	130,800
Europe-Africa leaseholds	13,000	6,300	200	200	300
Total Natural Gas Liquids Production	162,600	147,900	134,000	138,400	131,100
Total Crude Oil and Natural Gas Liquids Production	451,600	436,000	444,400	403,300	383,700

Net Natural Gas Production	Millions of Cubic Feet Daily				
United States	943	1,072	1,130	1,159	1,247
Europe-Africa	554	485	419	184	133
Other areas	—	1	—	—	—
Total Natural Gas Production	1,497	1,558	1,549	1,343	1,380

Average Sales Prices	1980	1979	1978
Crude Oil—Per Barrel			
United States	$19.78	11.85	8.49
Europe-Africa	35.70	21.70	13.52
Other areas	32.67	19.90	13.25
Natural Gas Liquids—Per Barrel			
United States	15.24	7.64	6.93
Europe-Africa	14.88	10.98	13.07
Natural Gas—Per Thousand Cubic Feet			
United States	1.38*	1.10*	.83*
Europe-Africa	3.14	2.10	1.85
Other areas	1.80	1.31	—

**Excludes sales of liquefied natural gas from Kenai, Alaska, and natural gas from gasoline plants.*

Average Production (Lifting) Costs*—Per Equivalent Barrel of Oil			
United States	$ 4.41	2.03	1.63
Europe-Africa	4.29	3.34	2.45
Other areas	7.06	6.13	2.15

**"Production (lifting) costs" consists of those incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. Also included is the U.S. crude oil excise tax. It does not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.*

Energy Resources Statistics

December 31, 1980	Thousands of Acres	
Acreage	Gross	Net
Developed Acreage		
United States	1,940	1,531
Europe-Africa	314	111
Other areas	127	26
Total Developed Acreage	2,381	1,668
Undeveloped Acreage*		
United States		
Southeastern region	1,834	1,484
Northwestern region	12,428	6,192
	14,262	7,676
Europe *(Norwegian and United Kingdom sectors of North Sea, Ireland, Italy and Spain)*	5,520	2,521
Africa *(Mauritania, Ivory Coast, Morocco, Egypt, Ghana, Nigeria and Congo Brazzaville)*	17,663	6,969
Asia *(Indonesia and Philippines)*	24,702	12,394
Canada *(Northwest Territories, British Columbia and Alberta)*	6,120	2,226
Latin America *(Chile, Colombia and Nicaragua)*	31,671	15,836
Australia	9,711	2,193
Total Undeveloped Acreage	109,649	49,815

**Phillips conducts an active worldwide exploration program in its search for oil and gas reserves. As a part of this program the company is continually acquiring, evaluating, developing and releasing acreage. Consequently, the minimum remaining terms of leases and concessions with undeveloped acreage are not meaningful.*

Capital Expenditures	Millions of Dollars				
	1980	1979	1978	1977	1976
United States					
Exploration and production	$ 434	411	142	368	99
Gas and gas liquids	137	80	58	65	69
Energy minerals	76	61	55	38	23
	647	552	255	471	191
Europe-Africa	349	286	287	267	238
Other areas	62	38	47	55	42
Total Capital Expenditures	$1,058	876	589	793	471

Exploratory Costs and Leasehold Impairment	Millions of Dollars				
	1980	1979	1978	1977	1976
United States	$ 316	244	111	76	79
Europe-Africa	95	69	58	35	48
Other areas	70	80	74	59	49
Total Exploratory Costs and Leasehold Impairment	$ 481	393	243	170	176

Wells Completed*	Exploratory			Development		
	1980	1979	1978	1980	1979	1978
Gross Wells						
United States	32	20	10	784	578	505
Europe-Africa	16	18	28	30	37	11
Other areas	57	49	25	5	1	—
Total Gross Wells	105	87	63	819	616	516
Net Productive Wells						
United States	7	2	2	191	108	77
Europe-Africa	2	1	4	7	11	3
Other areas	12	8	1	3	—	—
Total Net Productive Wells	21	11	7	201	119	80
Net Dry Wells						
United States	14	8	4	18	10	17
Europe-Africa	3	6	4	2	—	—
Other areas	7	17	11	—	—	—
Total Net Dry Wells	24	31	19	20	10	17

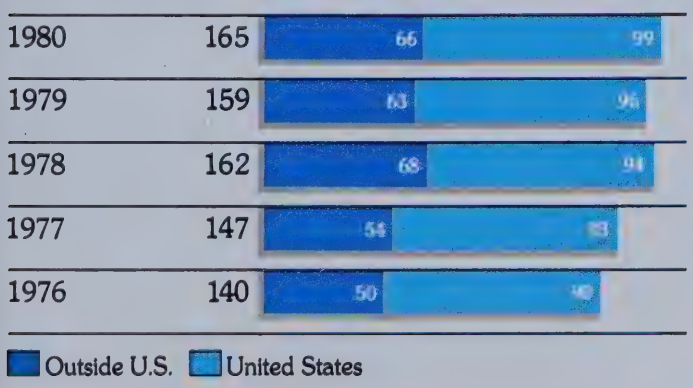
**Excludes farmout arrangements.*

Productive Oil and Gas Wells at Year-End 1980*	Oil		Gas	
	Gross	Net	Gross	Net
United States	26,855	6,233	3,776	2,237
Europe-Africa	201	54	82	23
Other areas	47	21	37	18
Total Productive Oil and Gas Wells	27,103	6,308	3,895	2,278

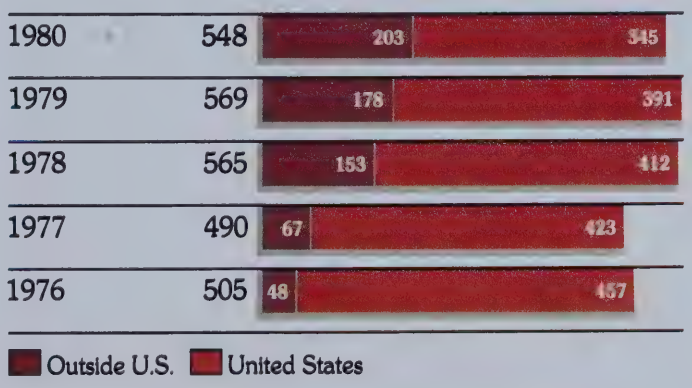
**Includes 1,073 gross and 443 net multiple completion wells.*

Wells in Progress at Year-End 1980	Drilling		Suspended	
	Gross	Net	Gross	Net
United States	155	57	20	7
Europe-Africa	16	5	66	20
Other areas	9	5	—	—
Total Wells in Progress	180	67	86	27

Net Crude Oil and Natural Gas Liquids Production
(Millions of Barrels)



Net Natural Gas Production (Billions of Cubic Feet)



Petroleum Products

Virtually all the major activities of Petroleum Products —refining, marketing and transportation—were adversely affected as the world petroleum situation shifted from tight supplies in 1979 to overabundance through most of 1980.

Net income in 1980, including results from equity in earnings of affiliated companies related to Petroleum Products operations, was $79 million, compared with $206 million in 1979. Margins were squeezed as product prices did not keep pace with rising raw material costs. A key reason for the lower margins was the industry's surplus of gasoline, heating oil, diesel fuel and other petroleum products. The company's raw material costs increased because of higher foreign crude oil prices and partial price decontrol of domestic natural gas liquids and crude oil.

Although 1980 earnings were lower, important steps were taken to prepare the company's petroleum products operations for improved earnings in the future. Notable progress was made in modernizing refineries and the tanker fleet, upgrading crude oil and natural gas liquids transportation systems, and consolidating marketing operations.

Feedstock Supplies

Raw materials were abundant most of the year. U.S. demand dropped markedly as relatively mild winter weather and recessionary factors reduced fuel needs. In addition, higher prices spurred greater conservation efforts. As a consequence, industry crude oil inventories in the United States reached record levels and imports fell to the lowest point since 1975. The buildup of crude and products inventories temporarily penalized Phillips earnings, particularly in the second quarter. Late in the year, the company was able to reduce its inventories to normal levels.

U.S. crude oil accounted for 59 percent of Phillips domestic refinery runs, compared with 62 percent in 1979. More than half of the company's imported oil came from Nigeria, with lesser amounts from the Norwegian North Sea, Mexico, Algeria, Libya and other nations.

Phillips remained an industry leader in natural gas liquids, a major feedstock for blending gasoline and making petrochemical products. The company agreed to acquire a 40 percent interest in the fractionator and related facilities of another company at Conway, Kan., and a 50 percent interest in an Oklahoma natural gas liquids pipeline gathering system, which will be extended to Conway.

Transportation

In 1980 the company took delivery of three shallow-draft, 52,000-ton tankers, which together with three similar tankers delivered in 1979, will more economically bring imported oil to the company's Freeport, Texas, terminal from Caribbean transshipment points, Mexico and South American countries. The new tankers replace older, smaller chartered vessels. Phillips is participating with other companies in a renewed study to construct an offshore unloading facility to allow larger tankers to serve Freeport. At the end of 1980, Phillips owned nine tankers, chartered 10 and had majority interest in two, having a combined total tonnage of 1.3 million tons.

Phillips Pipe Line Company, a subsidiary, is nearing completion of a 25,000-barrel-a-day expansion of its natural gas liquids pipeline from West Texas to the Sweeny refinery on the Texas Gulf Coast. The line will accommodate increased volumes of natural gas liquids from newly developed reserves in south central Texas. Phillips also constructed a 420-mile products pipeline between Borger, Texas, and Paola, Kan. This new line will retire the industry's first cross-country

The modernization and expansion of the Sweeny, Texas, refinery was the largest single U.S. project in Phillips history. Left, workers apply insulation to a steam line, part of the expansion's more than 150 miles of above-ground piping. Above right, is a part of the heavy oil cracker, one of the units which allows processing of up to 150,000 barrels a day of heavy, high-sulfur but less expensive crude oils. Right, some of the nearly 4,000 construction workers who spent more than nine million manhours on the four-year effort.

multiproducts pipeline laid by Phillips in 1931 and will conserve energy used on the pipeline system.

Refining

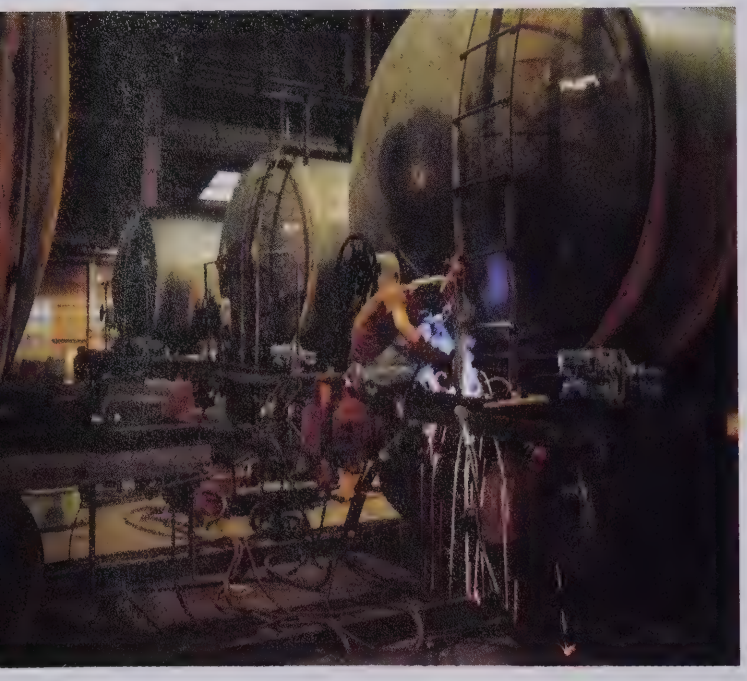
Phillips made significant progress on its strategy of modernizing refineries to process lower-cost, lower-quality crude oils into high-grade products. In the fourth quarter, construction of major units was completed on a $600 million program to modernize and expand the Sweeny refinery. The expansion will permit the refinery to process heavier crude with high sulfur content. It also will increase the company's domestic refining capacity by 40 percent.

A second major project to process more lower-quality, lower-cost crude oils and upgrade refinery yields was started at the Borger refinery. It is expected to be completed in 1983. A key phase of the project involves construction of an atmospheric residual desulfurization unit, which reduces downstream processing problems caused by sulfur and metals in lower-quality crudes. The project will cost nearly $400 million and will increase the refinery's capability to process less expensive, lower-quality crude oils to 90,000 barrels a day, or 93 percent of its crude capacity. The changes at Sweeny and Borger will enable Phillips to refine a large majority of the world's different types of crude oil and make the company a major refiner of heavy crudes. These crudes comprise an increasing portion of the free world's remaining oil reserves.

The company's crude oil charge to its domestic refineries averaged 262,000 barrels a day in 1980, or 62 percent of rated capacity. Natural gas liquids processed at Borger and Sweeny refineries averaged 159,000 barrels a day. Overall, natural gas liquids runs increased 4 percent, compared with 1979.

Crude oil charge rates were reduced by accidents at the Borger refinery in January and June 1980. The refinery was totally shut down for 85 days in early 1980 after an explosion and fire severely damaged plant utilities and the alkylation unit. Except for a brief shortage of aviation gasoline in early spring, the company maintained adequate supplies of products through a combination of short-term crude processing arrangements with other refineries and exchanges of crude oil for refined products. The extended downtime at Borger was used to complete several major maintenance projects. Decreased U.S. petroleum demand and high product inventories also contributed to reduced refinery runs.

The cost of crude oil to Phillips U.S. refineries in 1980 averaged $32.43 a barrel after the effect of federal entitlements, 62 percent more than in 1979. The increase was the result of higher world oil prices combined with phased price decontrol of U.S. crude oil. The cost of natural gas liquids to Phillips refineries increased 100 percent in 1980 to $17.06 a barrel.



Construction of new large pressurized tank cars increased Phillips fleet by 30 percent. Below, maintenance at Borger, Texas, where a major refinery modernization is under way.

Marketing

The sluggish economy and decline in demand for petroleum energy hampered marketing operations

throughout 1980. Total sales volumes of both gasoline and distillates were 3 percent lower than in 1979, reflecting the effects of a mild winter, higher prices, a decline in consumers' real purchasing power, better overall auto gasoline mileage and energy conservation. Sales margins were reduced as marketplace competition moderated price increases, while raw materials and operating costs continued to escalate. Despite a short period of price cuts in the third quarter, average wholesale prices at the end of the year were 21 cents a gallon higher for gasoline and 17 cents a gallon higher for distillates as compared with the close of 1979.

During 1980 the company increased distribution of gasohol, a blend of 90 percent unleaded gasoline and 10 percent ethanol, from three to nine terminals in the Midwest and Southeast. The company discontinued marketing leaded premium grade gasoline as the fuel dropped to around 5 percent of total gasoline deliveries. This was down from 36 percent a decade ago.

Phillips continued to work with jobbers and dealers to streamline operations and improve flexibility to meet changing market conditions. Jobbers and dealers market 93 percent of the company's refined petroleum products. During the year, 22 marginal company-operated outlets were eliminated.

Outlook

With the conflict between Iran and Iraq unresolved, world crude oil supply in 1981 is expected to be somewhat tighter than the surplus levels experienced in 1980. Both crude oil and product prices are predicted to rise. Higher prices, improved vehicle mileage and consumer conservation are expected to keep total U.S. demand for petroleum products below 1980 levels. Price decontrol of U.S. crude oil and higher world oil prices will increase feedstock costs. However, oil decontrol plus removal of price and allocation controls on gasoline and propane will allow more pricing and distribution flexibility and encourage conservation and production.

Phillips strategies for increasing the profitability of petroleum products operations in the 1980s center on increasing flexibility to meet uncertain feedstock supply and market conditions. The completion of modernizations of the Sweeny refinery in late 1980 and the Borger refinery in 1983 will give Phillips a greater capability to vary the types of crude it uses and to adjust production of petroleum products to meet changing customer needs. The company also plans to increase its supply and processing capacity of domestic natural gas liquids. In supply activities, Phillips continues to work with developing countries having large hydrocarbon reserves to provide technological assistance in return for long-term supply relationships.

A 420-mile pipeline is laid from Borger, Texas, to Paola, Kan., to move petroleum products to Midwest markets. The new line replaces the industry's first long-distance, multiproducts line laid by Phillips in 1931. The new pipeline system will use less energy.

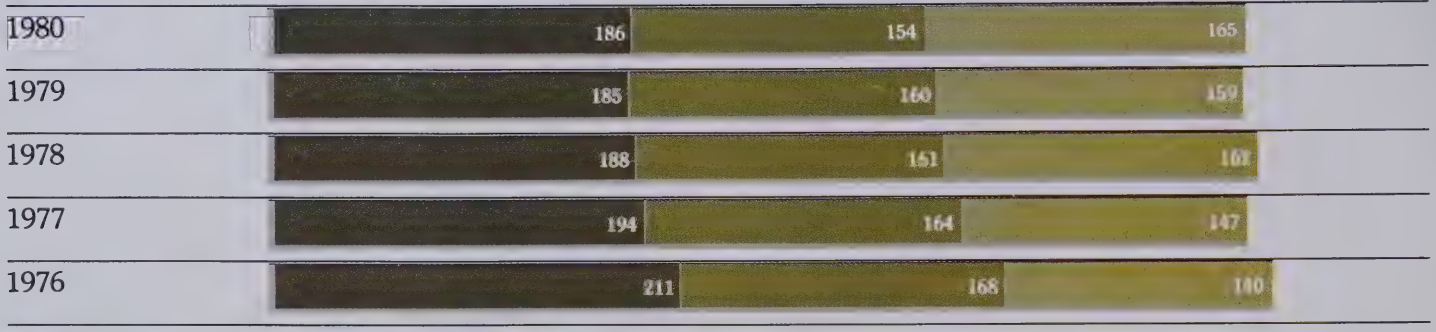
Feedstocks Processed and Products Produced

	Average Percent	
	1980	1979
Feedstocks		
Domestic crude oil	35%	38
Imported crude oil	25	24
Natural gas liquids	37	33
Miscellaneous hydrocarbons	3	5
	100%	100
Output		
Automotive gasoline	38%	40
Chemical feedstocks	13	15
Distillates	19	20
Consumer LPG	16	14
Other products	14	11
	100%	100

Petroleum Products Sold

	Average Barrels Daily	
	1980	1979
United States		
Automotive gasoline	214,000	220,000
Liquefied petroleum gas	106,000	100,000
Distillates	81,000	82,000
Aviation fuels	19,000	24,000
Other products	40,000	32,000
	460,000	458,000
Europe-Africa	47,000	46,000
Other areas	2,000	4,000
	49,000	50,000
Total Petroleum Products Sold Worldwide	509,000	508,000

Petroleum Products Sold, Refinery Runs, Crude Oil and Natural Gas Liquids Produced (Millions of Barrels)



Capital Expenditures

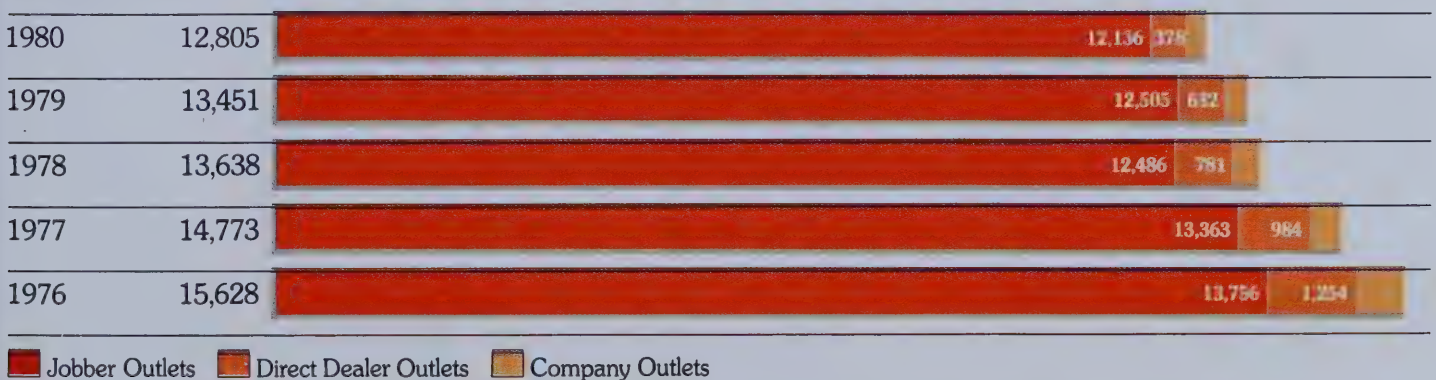
	Millions of Dollars				
	1980	1979	1978	1977	1976
United States					
Refining	$229	305	160	43	30
Marketing	2	3	6	5	3
Transportation	93	46	17	35	61
	324	354	183	83	94
Europe-Africa	—	—	—	—	—
Other areas	12	69	4	—	16
Total Capital Expenditures	$336	423	187	83	110

Refinery Crude Oil Capacities and Runs

	Average Barrels Daily	
	Capacity	Runs
1980		
Sweeny, Texas	218,000*	110,000
Borger, Texas	97,000	48,000**
Kansas City, Kansas	80,000	75,000
Woods Cross, Utah	24,000	23,000
Great Falls, Montana	6,000	6,000
	425,000	262,000
1979		
Sweeny, Texas	97,000	91,000
Borger, Texas	97,000	94,000
Kansas City, Kansas	78,000	72,000
Woods Cross, Utah	24,000	24,000
Great Falls, Montana	6,000	6,000
	302,000	287,000

Includes in 1980 additions to Sweeny operating capacity as result of current expansion.
***Borger refinery crude oil charge rates were reduced by accidents in January and June 1980.*

Marketing Outlets



Strong performances from consumer products operations in the United States, general chemical sales internationally and basic petrochemicals helped Chemicals achieve solid earnings in 1980. Chemicals manufactures a wide variety of intermediate and finished chemical products.

Net income for the year of $122 million, which includes results from equity in earnings of affiliated companies related to Chemicals, surpassed all but the peak years of 1974 and 1979. Chemicals net income accounted for 11 percent of the company's total earnings in 1980, compared with 21 percent a year ago. In 1979 Chemicals net income reached a record high of $185 million.

An economic downturn in the United States eroded earnings in two key product lines—olefins and cyclics. These petrochemicals, basic to the production of plastics and synthetic fibers, were among the first products to be affected when consumers began to defer the purchase of new cars, home furnishings and clothing.

Although the company's chemical sales strengthened toward the end of the year, cost increases for necessary raw materials, supplies and labor could

not be completely recovered through higher prices.

Revenues from the sales of plastic pipe and most other consumer products exceeded 1979 levels, as did those of specialty chemicals.

By the end of 1980, two new plants were in the process of coming on stream. One was a sulfur chemical plant at Tessenderlo, Belgium. When completed in 1981, it will produce petrosulfur compounds for use in agricultural chemicals, mining and other chemical applications. Completed during the year was a neohexene plant at Adams Terminal near Houston to provide chemicals for the flavors and fragrances industry. These two new specialty chemical plants reflect Phillips strong technological base in chemicals for specialized and innovative applications.

Basic Petrochemicals and Specialty Chemicals

Demand for olefins, used primarily in the manufacturing of plastics, slumped in mid-1980, but began an upswing in the final quarter of the year. Phillips, a major producer of ethylene, was affected somewhat less than others in the industry because of its U.S. sales contracts. In addition, Phillips benefited from a contract to provide technical expertise for the Venezuelan ethylene industry.

Demand for cyclics also slackened during the year, reflecting a downturn in sales of nylon and other synthetic fibers. Demand began to pick up in the final quarter of 1980. Phillips is a leading producer of cyclohexane used in nylon.

Phillips Core complex at Guayama, Puerto Rico, operated at 94 percent of capacity during the year. The complex produces a variety of petrochemical products and motor fuel from naphtha.

Revenues from specialty chemicals rose to their highest levels ever in 1980. The drilling mud additives business was sharply improved, reflecting the increased worldwide level of exploration activity.

Generally, revenues from high-purity hydrocarbons, solvents and other specialties increased.

Plastics

Earnings declined in the company's plastic resins operations during 1980, despite increasing sales toward the end of the year.

Demand for both Marlex polyethylene and polypropylene resins was below 1979 levels, although the company continued to benefit from the licensing of its process for production of high-density polyethylene. Agreements were completed with new

A new plant at Tessenderlo, Belgium, above, will supply petrosulfur compounds to European industries, replacing supplies from Borger, Texas, some 6,000 miles away.

Part of an earthen dike at a Florida power plant, left, is strengthened with 19 miles of Phillips Supac, a nonwoven polypropylene soil stabilization fabric. Phillips Supac holds back soil, thus minimizing erosion.

Convocan ice cream containers, right, made by Sealright are shipped flat and assembled by the customer. The packaging system helps to reduce shipping charges.

licensees in Singapore and the United States.

Sales continued to be strong for K-Resin, a clear, shatter-resistant plastic, and Ryton, a tough, heat-resistant engineering plastic.

Capacity was increased at the Houston plant of American Thermoplastics Corporation, the company subsidiary where plastic resins compounding activities are conducted. The Bound Brook, N.J., plant, closed in 1979, was sold in 1980.

Fibers

Revenues were down during the year, as most fibers operations were affected by the slump in the textile industry. Also, the remaining assets of Revonah Spinning Mills were sold. Demand increased for nonwoven engineering fabrics, particularly Petromat, used to strengthen asphalt paving in roads, aircraft runways and bridge decks.

Rubber Chemicals

Sales of synthetic rubber and carbon black declined in the U.S. market during 1980, primarily because of the low sales in the auto industry. Overall, results fell below 1979 levels despite continued strong international sales.

Non-tire rubber sales continued to expand into new applications. A light-weight, high-strength polyester and fiberglass compound modified with a new Solprene elastomer was tested extensively in exterior automotive parts.

Construction of a new Solprene synthetic rubber plant was started in Mexico by a company jointly owned by Phillips. In the United States the butadiene plant at Borger, Texas, was closed because its operation was no longer profitable.

Consumer Products

Revenues from sales of consumer products were up 24 percent in 1980, as most product lines proved to be resistant to the general downturn in the U.S. economy. The leading performer was Phillips Driscopipe, Inc., which makes plastic pipe for water and sewer systems, natural gas distribution systems and many industrial uses.

Revenues increased slightly for Sealright Co., Inc., a manufacturer of paperboard and plastic containers. A new quart-size Convocan ice cream container proved to be highly popular, and new markets developed for the Ultrakan packaging system for dispensing relishes in a major fast food chain and yogurt in the dairy industry.

Strong demand for Poly Slik release paper continued to boost revenues for H. P. Smith Paper Co., which produces coated paper and film products.

Revenues also were up for Phillips Products Co., Inc., principally because of demand for Garden Scene plastic flower pots and other planterware. A new line of Dura Craft plastic shutters was introduced.

Business was mixed for Wall Tube & Metal Products Co. Auto industry demand was down, but sales to the aircraft industry increased. The company makes rear bumper assemblies and other fabricated metal products for light trucks and stainless steel tubing for aircraft, aerospace and industrial uses.

Interplastic Corporation, acquired early in the year, was adversely affected by the recession in the marine, automotive and construction industries. The firm makes unsaturated polyester resins used in reinforced plastics.

Fertilizers

Revenues increased in this highly seasonal business. Phillips began broadening its ammonium nitrate marketing in fertilizers and explosives. American Fertilizer & Chemical Co., which operates farm supply stores, increased its revenues 18 percent.

Outlook

Phillips plans to continue to diversify while withdrawing from low performance areas of operations, a strategy which proved to be beneficial during 1980. Just how Phillips chemicals operations fare in 1981 depends a lot on the health of the U.S. economy. There are some positive signs. Toward the end of 1980, demand began to pick up for cyclics and olefins. During the coming year, a 450 million pound high-density polyethylene plant expansion will be completed at Adams Terminal. This polyethylene will be sold to producers of blow-molded bottles and injection molded plastics. Strong demand is expected in 1981 for plastic pipe, specialty chemicals, drilling mud additives and engineering plastics.

Overseas, the chemicals business is expected to be weakened by the general slowdown in the European economy. Improvement is not anticipated until late 1981. In Latin America, rubber chemicals are expected to continue to grow, while exports of plastic resins to Asia should continue at or above 1980 levels.

Capital Expenditures

	Millions of Dollars				
	1980	1979	1978	1977	1976
United States					
Basic petrochemicals and specialty chemicals	$ 21	22	33	91	81
Plastic resins	76	39	66	42	12
Rubber chemicals	9	11	10	8	13
Consumer products	29	20	8	9	6
Fertilizers	9	2	3	7	2
Synthetic fibers	7	4	2	2	6
	151	98	122	159	120
Europe-Africa	28	15	2	1	1
Other areas	2	1	2	1	—
Total Capital Expenditures	$181	114	126	161	121

Principal Chemicals Plants or Expansions Completed During 1980

Product	Location	Phillips Interest	Additional Gross Annual Capacity
Benzene	Guayama, Puerto Rico	100%	12,000,000 gallons
Carbon black	Borger, Texas	100	20,000,000 pounds
High-density polyethylene[1]	Pasadena, Texas	100	80,000,000 pounds
Synthetic rubber	Borger, Texas	100	23,100,000 pounds
Neohexene[2]	Pasadena, Texas	100	1,500,000 pounds

Principal Chemicals Plants or Expansions Under Construction or Authorized at Year-End

Product	Location	Phillips Interest	Additional Gross Annual Capacity
Carbon black	Hannover, West Germany	100%	22,000,000 pounds
High-density polyethylene[1]	Pasadena, Texas	100	450,000,000 pounds
High-density polyethylene[2]	Singapore	60	176,000,000 pounds
High-density polyethylene	Tarragona, Spain	45	132,000,000 pounds
High-density polyethylene	Antwerp, Belgium	50	187,000,000 pounds
Petrosulfur compounds[2]	Tessenderlo, Belgium	100	22,100,000 pounds
Polyphenylene sulfide	Borger, Texas	100	3,500,000 pounds
Synthetic rubber[2]	Tampico, Mexico	39	55,000,000 pounds

(1) Plant can also produce low-density polyethylene
(2) New plant

The long accepted definition of corporate citizenship is that profit created by commerce is a certain path to social betterment. Profitable companies provide jobs and pay taxes, which in turn help support the well-being of the community. However, for many years Phillips has taken actions which enhance the traditional definition of corporate citizenship. Frequently this has meant providing leadership in community affairs, recognizing employees for the time and effort they devote to civic projects, and increasing the public's understanding of how Phillips and the petroleum industry can help solve national, regional and local problems. To further emphasize these programs, Phillips Board of Directors in 1980 established a Public Policy Committee.

The new Bartlesville Community Center, above, was financed in part by a Phillips grant. The 95,000-square-foot facility is scheduled for completion in late 1981. Employee van pools in 1980 saved an estimated 70,000 gallons of gasoline.

Community Involvement

Phillips increased its involvement in community activities in 1980 through several widely different programs. One such program involved providing more opportunities for young people to learn water safety and become better swimmers and divers. Working with park and recreation departments, the company conducted swimming and diving clinics in 20 U.S. cities. Internationally, the company sponsored and conducted seminars for swimming coaches in Indonesia, the Philippines and Hong Kong and sponsored swimming competitions in Norway and Nigeria. At the national level, Phillips sponsored the U.S. outdoor diving championships, which in 1980 were held in Bartlesville, Okla. In addition, the company made a commitment to remain the national sponsor for the U.S. diving and U.S. swimming programs through the Olympic year of 1984.

In communities where the company has key facilities, Phillips increased its financial support and advisor assistance to building various community facilities. In Bartlesville, Phillips is involved in the construction of a multipurpose community center, scheduled to be completed in late 1981. In Sweeny, Texas, the company is supporting the construction of a library/community activities building and in Borger, Texas, Phillips is a major contributor to the building of a community activities facility. In Dewey, Okla., Phillips was involved in the conversion of a grade school building into a county adult center.

Internationally, Phillips supported the Cambodian refugee relief effort with funding and technical assistance, and contributed to a community rehabilitation program in Egypt, scholarship programs in Norway and a disadvantaged youth program in Mexico.

Educational Support

The company added to its educational program with the sponsorship of *The Search for Solutions* film series. The nine-part film series was televised by the U.S. Public Broadcasting Service and by the end of 1980 was being shown each month to nearly three million secondary school students. The film series is designed to encourage youngsters to pursue careers in

one of the many science and engineering fields.

In all, Phillips support of educational, cultural, youth, health and welfare and civic organizations, plus graphic and design support for non-profit organizations, totaled $10.7 million. Examples of graphic support included the Oklahoma Summer Arts Institute and the Mid-America Arts Alliance.

Phillips support to education through grants, programs, scholarships and fellowships increased 76 percent to $3.5 million. A major reason for the increase was a revision in the company's Employee Matching Gift program in which the company matches an employee's or retiree's contributions to colleges, universities and technical schools on a two-for-one basis. In 1980 contributions through the matching gift program rose more than fivefold to $582,630.

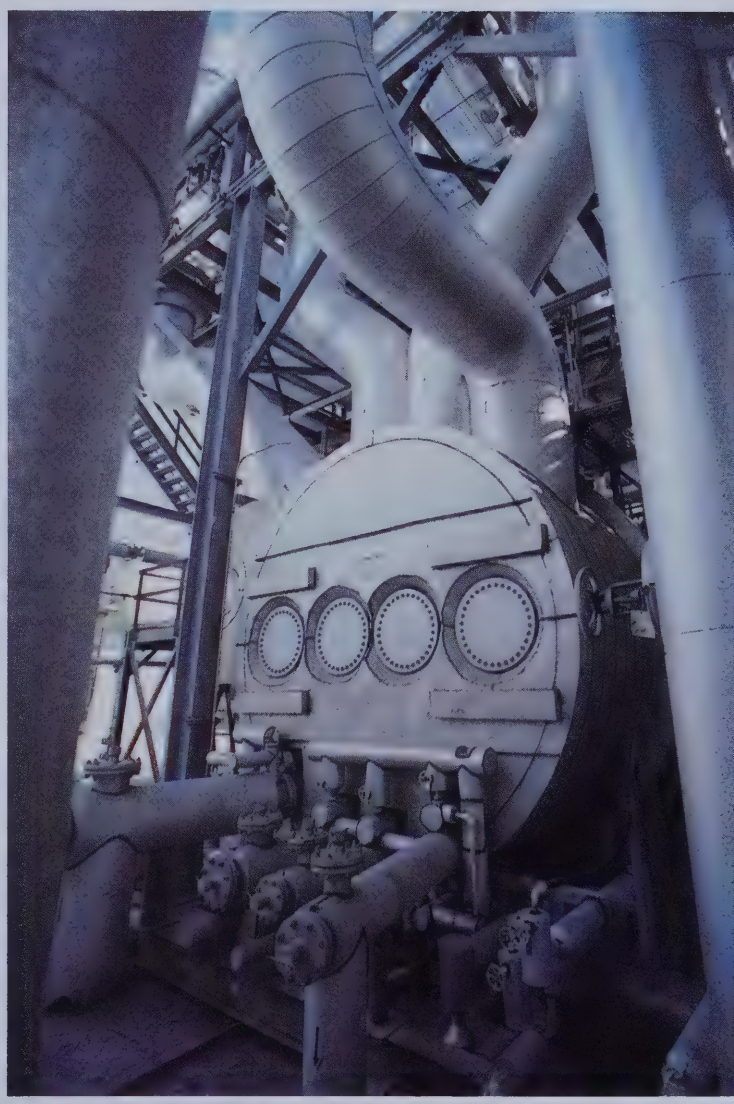
Environmental Protection

Phillips committed $146 million in 1980 for capital expenditures on specific projects to protect the environment. This was a 26 percent increase from the amount of money committed to similar projects in 1979. One of the major reasons for this sizable increase was installation of new equipment to remove pollutants from emissions and treat waste water in the modernization of the Borger, Texas, refinery. An additional $122 million was spent during the year to operate and maintain existing environmental control systems, 85 percent more than was spent in 1979.

Energy Conservation

Throughout the past decade, Phillips has worked hard to use energy more efficiently. A formal energy conservation program started in 1973 has become more and more important each year as energy costs continue to rise. Savings have far exceeded the $202 million the company has invested or committed to energy conservation projects since the program began. In 1980, despite reduced levels of activity at some refineries and chemical plants, total energy savings amounted to an equivalent of 1.6 million barrels of oil, enough to provide heat and electricity for 40,000 average homes for a year.

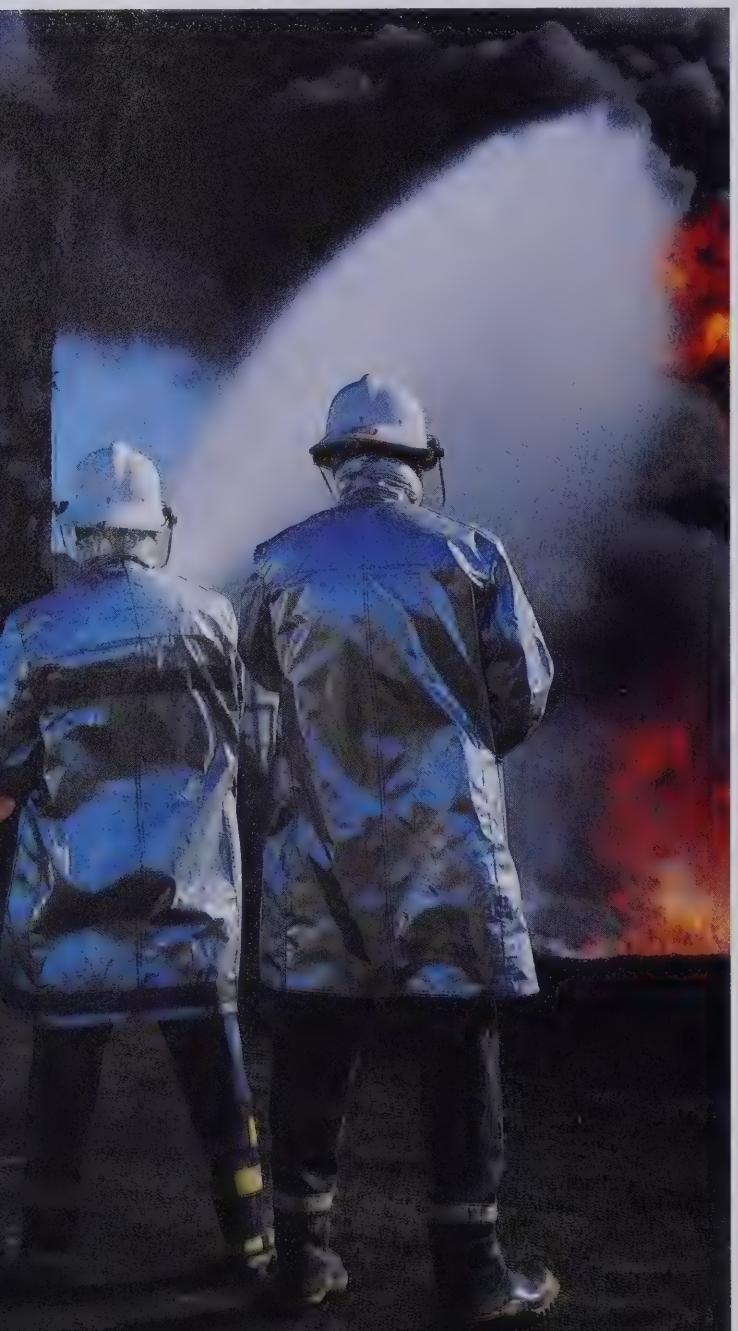
During the year, Phillips expanded a program through which employees at company facilities in Bartlesville, Houston, Sweeny and Borger can commute to work in vans instead of private automobiles. More than 20 vans carrying 12 passengers each are in operation.



Two environmental control projects recently completed at the Sweeny, Texas, refinery are: above, a unit to remove sulfur from waste gas and, below, a waste treatment system in which bacteria degrades oily wastes injected into the soil by this specially equipped truck.

The continued progress of Phillips ultimately depends on the quality and commitment of its employees. Maintaining a skilled work force is an important challenge facing the company. A large number of skilled employees hired during the company's rapid post-war expansion will be retiring, putting experience at a premium. Secondly, the growth of the energy industry will be accelerating, straining the availability of skilled people. A 1980 company study estimates that half the people working for Phillips in 1986 have yet to be hired.

Phillips is responding to this challenge for quality people with programs that aggressively recruit, develop and retain employees at virtually every level. One example is the Technical Professional Ladder Program, begun in 1980. A major purpose of the program is to provide advancement opportunities for those individuals whose primary interests and abilities are in technical, not management, areas.



Nearly 200 employees at the Sweeny, Texas, refinery were trained in fire fighting. Companywide some 6,200 employees in 1980 received fire training.

Safety

Because of the growing complexity of the company's facilities, safety programs received increased attention in 1980. A top management Corporate Safety Policy Committee was set up to coordinate safety programs. Managers with line experience were added to safety and loss prevention units at group and staff levels, while the number of safety personnel was increased to support this effort.

In March a living quarters platform under contract to Phillips, *Alexander Kielland,* capsized in the Norwegian North Sea. There were 123 fatalities, one a Phillips employee. Investigations are continuing to determine the cause of the accident. One other employee fatality resulted from a fire at Phillips facilities in Puerto Rico.

The lost-workday incident rate was 0.8 for every 200,000 employee hours worked, while there were 3.6 vehicle accidents for every million miles driven. The dollar cost of property loss and business interruption increased approximately 800 percent, mainly due to a refinery fire in Borger, Texas, and production losses resulting from the *Alexander Kielland* accident.

Employment

Worldwide employment in 1980 increased 7 percent to 32,400, of whom 5,800 were living outside the United States. Equal opportunity programs continued to emphasize hiring, development and promotion of racial minorities, the handicapped, disadvantaged and women. At the end of 1980, minorities were 15 percent of all Phillips U.S. employees, compared with 14 percent at the end of 1979.

Training

Training programs at all levels helped develop the skills and abilities of more than 15,600 employees in 1980. Individual performance reviews continued to sharpen employee understanding of company goals and expectations, while singling out those factors which enhance productivity and job satisfaction.

Recruitment

The need for more highly trained graduates led Phillips to extend its 1980 recruiting search to 114 campuses, 19 more than in 1979. Nearly four of every five graduates hired in 1980 held degrees in engineering or science, reflecting the company's need for energy-related skills. Phillips also stepped up its hiring of experienced professionals. These people accounted for 50 percent of the professionals hired in 1980, compared with 9 percent just two years ago. Overall, 11 percent of the professionals hired were racial minorities. Women accounted for 16 percent.

Benefits

Benefits were expanded in 1980 with the addition of a dental assistance plan under which the company pays the major portion of premiums for eligible employees and dependents. Nearly 95 percent of eligible employees elected to participate in the plan.

Overall, the cost of benefits in 1980 averaged $10,000 for each employee, or 30 percent of the company's total payroll and benefits cost. Phillips benefits were communicated through publications, bulletins and retirement planning seminars.

Suggestion Plan

Tangible savings from first-year implementations of suggestions adopted in 1980 under the company's Suggestion Plan were $8 million as 3,669 employees received awards totaling $667,000. Two employees, a Norwegian and an American, each earned the maximum $25,000 award.

Health

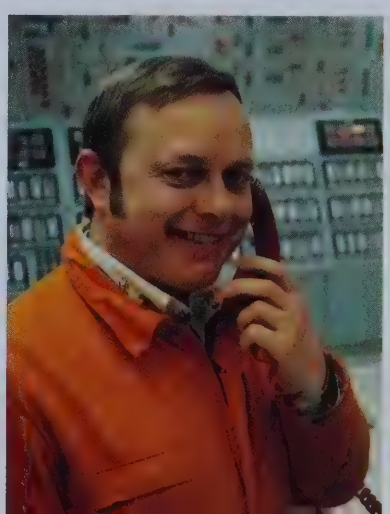
Company surveillance programs to detect threats to employee health and exposure to chemical and physical hazards are now in place in 43 U.S. plants. Similar exposure programs were undertaken in seven European plants and Ekofisk area operations.

More than 250 technicians were trained in monitoring employee exposure and 90 of them also attended courses in industrial hygiene monitoring and sampling strategies. The functions of the Industrial Hygiene Analytical Laboratory were expanded to include analysis of airborne metallic fumes and dust.

Labor Relations

Several of our U.S. facilities were affected by an industrywide labor strike by the Oil, Chemical and Atomic Workers Union. In Europe, two unrelated strikes in Scotland and Norway briefly delayed marine construction and forced suspension of Ekofisk area operations for two weeks.

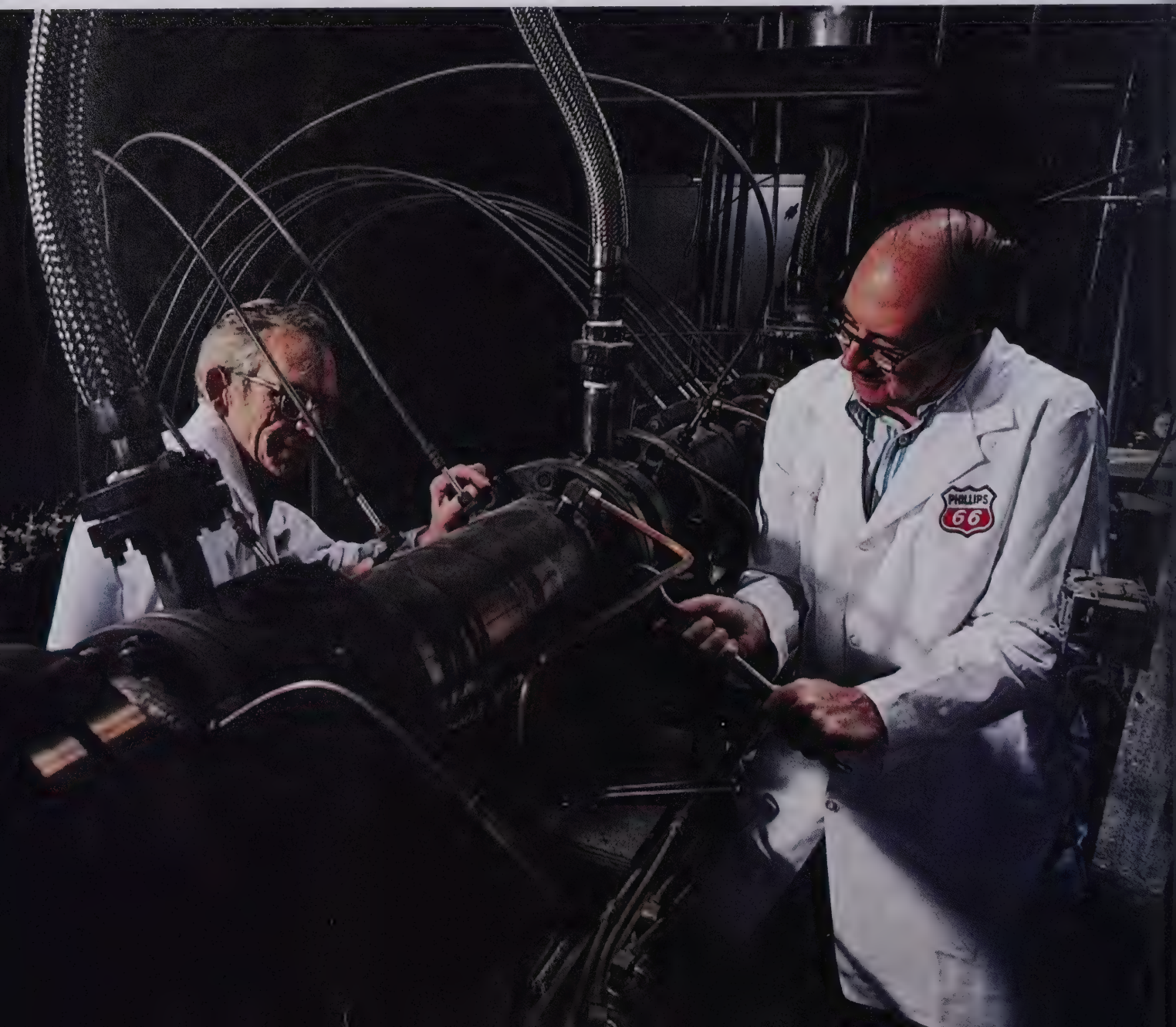
Hand-carved crystal, above, was awarded to employees as part of a new program to recognize scientific achievement. Also, Nils Eriksen, lower left, and Kenny Klepper each received the highest award of $25,000 under the company's Suggestion Plan program.



Research

Phillips commitment to research and development activities in 1980 rose to $84 million in research costs. While this was a 20 percent increase from the $70 million spent in 1979, a better understanding of the importance and direction of Phillips research effort can be gained by looking at several long-term developments. The most visible is expansion and modernization of the company's research center in Bartlesville. This long-range investment program began four years ago and will continue into 1983. Four key facilities were completed in 1980:

- Process Development Center. Will contain some 30 automated pilot plants that will speed up development of commercial processes and products.
- Alternate Energy Building. Designed for experiments in such synthetic fuel sources as tar sands, oil shale and lignite coal. This will reduce time needed to develop new processes and to evaluate alternatives.
- Carbon Black Technology Center. Enables Phillips to consolidate its carbon black research. This will create more opportunities to develop new technology and find ways to reduce costs in current operations.
- Patent-Library Building. Provides researchers, scientists, patent attorneys, engineers and other



personnel with immediate access to scientific data available through computer networks. The library also contains more than a million patents and some 20,000 technical papers and books.

Exploration and Production Technology

Basic to the company's long-term research effort is the development of technology—techniques and equipment—to optimize production of oil and natural gas as well as to enhance the company's chances of finding new energy resources.

One of the most significant research projects of 1980 focused on technology for producing additional oil from formations such as those of the Greater Ekofisk area fields. Rock in some geological formations can absorb, or imbibe, additional water. This characteristic, called imbibition, is important in the waterflood recovery program proposed for the Ekofisk field. To obtain imbibition data, Phillips researchers duplicated in the laboratory the conditions—heat, pressure, rock fractures, pores—that exist in the Ekofisk reservoir.

In recent years, Phillips scientists and researchers have developed portable seismic equipment and compact sonic waveform logging equipment. In 1980 Phillips geoscientists completed the development of a compact geochemical field lab capable of on-site analysis of small samples of oil, natural gas, tar sands, oil shale and lignite. These analyses provide quick and accurate assessments of the resources.

Process Research

Process research is a key long-term development area. For example, Phillips has been in the forefront of developing new technology for refining thick, heavy, high-sulfur crude oils. Such oils account for an increasing percentage of worldwide refinery feedstocks. In 1980 Phillips researchers completed initial development of a proprietary process for refining heavy crudes. Company scientists also enhanced the company's metals passivation technology, which improves gasoline yields.

Researchers furthered their investigations of processes to convert lignite coal into liquid fuels and to remove from lignite impurities that inhibit combustion.

A Phillips-developed industrial burner, left, permits burning of fuels, made from coal and shale oils, that contain more nitrogen than petroleum fuels. Here, researchers C. W. Beaver, left, and P. A. Panther prepare the two-stage burner for laboratory tests.

Product Development

Phillips continued expanding and modernizing the light hydrocarbon technology that it pioneered in the early 1920s. In 1980 researchers developed three new catalysts that upgrade Marlex resins. The catalysts improve injection and rotational molding, expand the market for the resin in extruding pipe, bottles and wire sheathing, and extend the use of Marlex resins used in low-density polyethylene film.

Possible new markets for Phillips chemicals include auto parts molded from reinforced plastic sheets. Above, researchers Melody Hammond and David Hicks check a grill housing. Below, samples are put in a new, Phillips-developed chemical analyzer that checks out 238 samples at one time.

Heat-resistant Ryton film was developed for use in making electrical components such as capacitors, and as insulation for electric motors and transformers. In addition, this polyphenylene sulfide plastic was adapted for use in microwave oven cookware.

New Venture

A joint venture with Acurex Corporation, a California-based advanced technology company, was initiated to make and market commercial solar energy equipment and systems. Programs moved ahead in developing solar energy conversion technology embracing photovoltaic cells that convert light into electric current.

Phillips continued to lead the industry in obtaining new patents, with 291 awarded in 1980. At the end of 1980, the company owned 6,078 active U.S. patents and 2,700 active patents in other countries. Various processes and technological equipment developed by Phillips are currently licensed in 29 countries.

This large thermal collector provides solar energy for use in industrial process-heat operations. The collector is a product of a joint venture between Phillips and Acurex.

Financial Review

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Capital Resources and Liquidity

Financial Position

The consolidated balance sheet at December 31, 1980 presented below in a summarized financial position format and expressed in percentages is compared with the financial position of each of the three preceding years expressed in percentages.

Working capital, after increasing in 1978 as a result of the $436 million of funds generated by the sale of a minority investment in Pacific Petroleums Ltd., decreased as a percentage of total financial position assets during 1979 and 1980. This sale accounts in large measure for the drop in investments in 1978.

Working capital at December 31, 1980 reflects substantial amounts of cash, time deposits and short-term investments ($1.47 billion), and accrued income and other taxes ($1.57 billion). While most taxes are paid currently, semi-annual income tax payments are made to Norway. In April of 1981, the company will use a substantial portion of the December 31, 1980 cash items to pay Norwegian income taxes accrued at year-end 1980.

Over the last three years, the company's requirements for working capital funds for increased investments in properties, plants and equipment, and to a lesser extent payment of dividends, retirement of long-term debt and to meet other cash requirements, have been met in substantial part by funds provided from operations. In order to fully provide for this increasing demand for funds, the company has utilized other sources of funds, primarily funds from the sale of Pacific Petroleums Ltd. In 1980, the dollar amount of long-term debt increased, reversing the pattern of the previous four years. This increase is mainly attributable to borrowings for the development of the Maureen Field in the United Kingdom sector of the North Sea.

Capital Expenditures

Phillips operations are capital intensive, requiring significant dollar expenditures over long construction periods which can range up to several years. Capital expenditures were $1.67 billion in 1980, compared with $1.45 billion in 1979 and $940 million in 1978.

Phillips authorizes capital expenditures on an aggregate project basis, so that the total authorization includes amounts which will be spent over the development periods of the authorized projects. At December 31, 1980, the unexpended amount attributable to previous authorizations was $2.6 billion, up 44 percent from December 31, 1979. Among the major projects for which these future capital expenditures will be made are completion of Greater Ekofisk Development, development of the Maureen Field in the United Kingdom sector of the North Sea, the Oxbow lignite mine in Louisiana and upgrading of the Borger, Texas refinery to allow processing of heavier crude feedstocks.

Phillips has approved a 1981 capital budget of $3 billion. As has been the case in previous years, it is anticipated that capital expenditures on projects authorized under this budget will be made in 1981

Financial Position Summary

December 31	Millions of Dollars	Percentages			
	1980	1980	1979	1978	1977
Working capital	$ 589*	8.7%	12.1	15.6	10.4
Investments	367	5.5	4.7	4.6	11.1
Properties, plants and equipment (net)	5,675	84.2	81.8	77.9	76.8
Deferred charges	108	1.6	1.4	1.9	1.7
Total financial position assets	6,739	100.0	100.0	100.0	100.0
Long-term debt	698	10.4	11.1	13.3	17.0
Other liability items	1,104	16.3	16.0	16.1	16.2
	1,802	26.7	27.1	29.4	33.2
Stockholders' equity	$4,937	73.3%	72.9	70.6	66.8

**Working capital is current assets ($3,694) minus current liabilities ($3,105).*

and future years. Capital budgets approved in prior years were $2.5 billion in 1980, $1.6 billion in 1979 and $1.3 billion in 1978.

Funds Availability

Phillips capital expenditures have risen sharply in recent years and are expected to continue to increase. Funds from operations are expected to provide a substantial portion of the future fund requirements. To the extent this source proves insufficient, management expects the company will borrow funds either in the private or public markets or a combination of both. Management believes the company has substantial untapped external borrowing capacity, both domestic and foreign, and that it is positioned to employ such capacity should circumstances warrant. As disclosed in Note 6 to financial statements, the company has arrangements to borrow $34 million, repayable through 1992, and available unused lines of credit totaling $301 million.

Results of Operations

Net income for 1980 was $1.07 billion, up 20 percent from the $891 million earned in 1979. For the last five years, Phillips net income increased at a compound annual growth rate of 26 percent, while income taxes have grown at a 39 percent annual rate.

Each of Phillips major operations—petroleum exploration and production, petroleum refining, marketing and transportation, and chemicals—made significant contributions to net income during the five-year period. Overall, sharply escalating sales prices for most products, increased production of petroleum liquids and natural gas, and increased chemical sales volumes were the principal factors responsible for this net income growth.

Petroleum Exploration and Production

Phillips petroleum exploration and production operations earnings for 1980 were $868 million compared with $504 million in 1979 and $423 million in 1978. Additional production contributing to earnings came from the Greater Ekofisk Development in the Norwegian North Sea, the North Slope of Alaska and domestic natural gas liquids.

While the first discovery in Greater Ekofisk was made in 1969, it was not until 1980 that Greater Ekofisk reached peak production. Phillips interest in the Prudhoe Bay Field on the North Slope of Alaska, which began producing in 1977 with the completion of the Trans-Alaska Pipeline, is now at full production. Domestic natural gas liquids production increased as a result of an aggressive plant investment program.

The sales prices of crude oil, natural gas liquids and natural gas, both domestic and foreign, escalated sharply in recent years. Some average 1980 sales prices and the percentage increases from 1979 follow: U.S. crude oil, $19.78 per barrel, up 67 percent; Europe-Africa crude oil, $35.70 per barrel, up 65 percent; U.S. natural gas liquids, $15.24 per barrel, up 99 percent; U.S. natural gas, $1.45 per thousand cubic feet, up 19 percent; and Europe-Africa natural gas,

Five-Year Summary of Net Income

Years Ended December 31	Millions of Dollars				
	1980	1979	1978	1977	1976
Petroleum Exploration and Production					
United States	$ 582	283	277	267	202
Outside United States	286	221	146	98	40
	868	504	423	365	242
Petroleum Refining, Marketing and Transportation					
United States	17	131	34	60	55
Outside United States	47	48	6	12	1
	64	179	40	72	56
Worldwide Petroleum	932	683	463	437	298
Worldwide Chemicals	111	178	59	68	74
Other*	27	30	196	26	40
	$1,070	891	718	531	412

**Other includes equity in earnings of affiliated companies, losses from coal, uranium, geothermal and oil shale activities, and gains and losses from other corporate activities (including in 1978 net income of $170 from sale of Pacific Petroleums Ltd. stock).*

Trends—Net Income and Income Taxes

Year	Net Income		Income Taxes	
	Millions of Dollars	Percent Increase over Prior Year	Millions of Dollars	Percent Increase over Prior Year
1980	$1,070	20%	2,170	74
1979	891	24	1,245	26
1978	718	35	989	49
1977	531	29	665	8
1976	412	23	616	48

$3.14 per thousand cubic feet, up 50 percent.

While energy production and sales prices increased, the major portion of the resulting revenues was required to cover higher production and operating expenses, exploratory costs, depreciation, depletion, amortization and retirement charges, and substantially higher income taxes.

Petroleum Refining, Marketing and Transportation

Petroleum refining, marketing and transportation earnings for 1980 of $64 million, while down substantially from the $179 million earned in 1979, were still above 1978 net income of $40 million. During the last three years Phillips experienced much higher raw material costs (refinery throughput costs) and slightly lower sales volumes of refined petroleum products, while sluggish demand and competitive market conditions depressed product margins in 1980 and 1978.

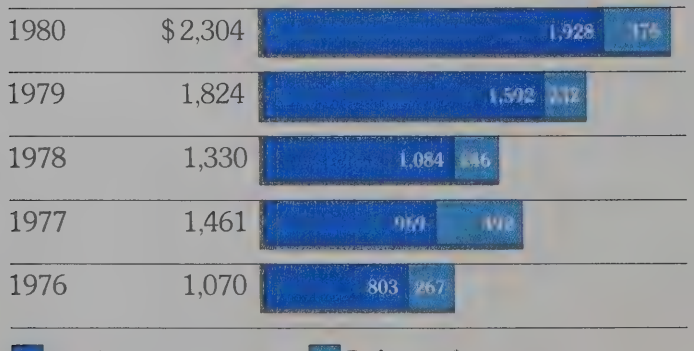
Chemicals

Earnings for Phillips chemical operations were $111 million in 1980, compared with $178 million in 1979 and $59 million in 1978. During the last three years, chemical production capacities increased and, as a result of strong demand for chemical products, Phillips was able to increase product sales volumes and maintain product margins during 1979 in spite of increasing raw materials and operating costs. As the U.S. economy turned down in 1980, chemical product sales volumes and margins declined. As a result, 1980 chemical earnings dropped from the 1979 record earnings level. Throughout the three-year period, Phillips experienced strong export sales. Contributing to this strength were U.S. government petroleum price control programs which kept domestic feedstock costs lower than prevailing world prices and foreign exchange rates which benefited other currencies relative to the U.S. dollar.

Other Operations

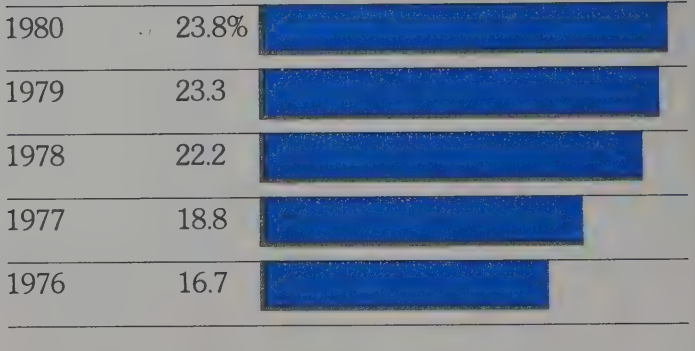
Phillips is engaged in developing new business operations in lignite coal, uranium, geothermal and oil shale. As expected, these initial efforts have produced losses, $34 million in 1980, $20 million in 1979 and $21 million in 1978. While some commercial

Funds Available and Expended (Millions of Dollars)



*Made up by borrowings, sales of assets and reduced working capital.

Return on Average Stockholders' Equity*



*Net income divided by average stockholders' equity.

Exploratory Costs and Leasehold Impairment

	Millions of Dollars		
	1980	1979	1978
Geological and geophysical expenses	$184	131	101
Impairment of leasehold investments	94	136	36
Dry hole costs	185	116	98
Lease rentals	18	10	8
	$481	393	243

developments are underway, initial revenues are not expected until the mid-1980s.

In 1978 Phillips sold its minority equity investment in Pacific Petroleums Ltd., a Canadian oil and gas company, and recognized a gain, net of applicable income taxes, of $170 million.

Other operations also include earnings of Walton Insurance Limited and Phillips Petroleum Credit Corporation, equity in earnings of other affiliated companies and the results of all other corporate activities including interest earned on time deposits and short-term investments, and interest expense.

In summary, Other operations contributed $27 million to net income in 1980, $30 million in 1979 and $26 million in 1978, excluding the sale of Pacific Petroleums Ltd.

Exploratory Costs and Leasehold Impairment

During the last five years Phillips intensified its worldwide exploration for petroleum reserves and expanded its search for energy reserves in the United States to include lignite coal, uranium, geothermal and oil shale. Certain of these exploratory costs are required to be expensed as incurred while other costs are expensed only upon unsuccessful efforts. A comparison of the components of exploratory costs and leasehold impairment for the last three years is shown above.

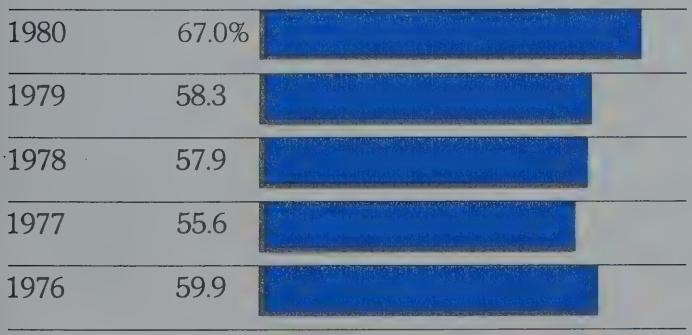
Provisions for Income Taxes

The provisions for income taxes during the last three years increased principally due to higher income before income taxes, both domestic and foreign, and increased effective income tax rates, mainly foreign. The provisions for income taxes as a percentage of income before income taxes (the effective income tax rate) were 67 percent in 1980, 58 percent in 1979 and 58 percent in 1978.

Changing Prices and the Effects of Inflation

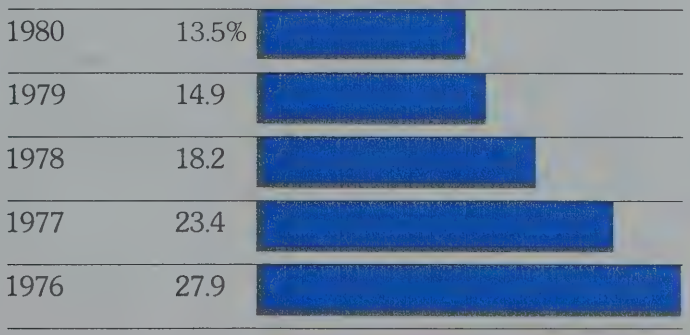
Conventional financial reporting, which is based upon historical dollars, does not show the continuing effects of inflationary costs and changes in the purchasing power of the dollar. Supplemental information concerning the impact of inflation is provided on pages 66 and 67.

Effective Income Tax Rates*



*Total income taxes divided by pre-tax income.

Percent of Debt to Capital*



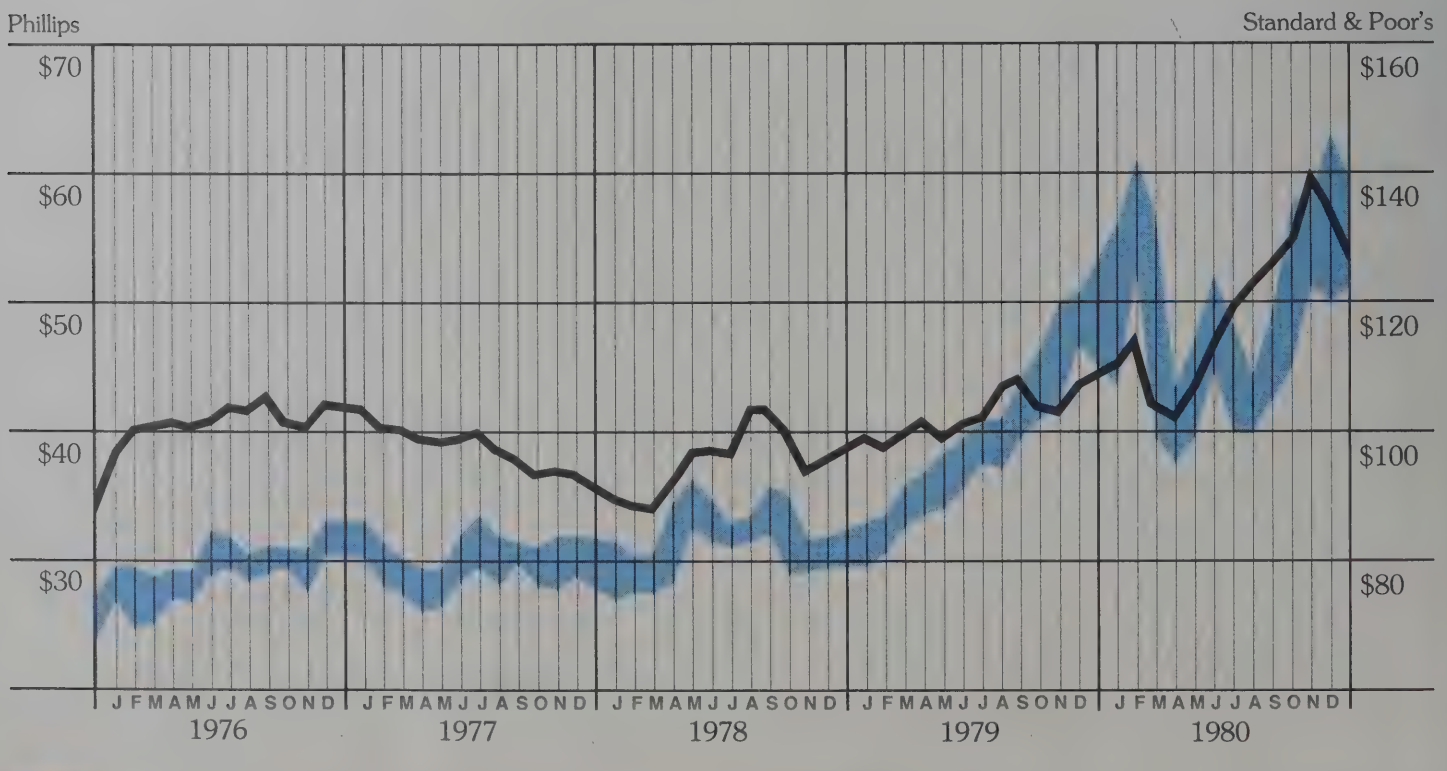
*Debt divided by debt plus stockholders' equity. Debt is long-term debt plus obligations under capital leases.

Stock Prices and Dividends

	Quarter			
	First	Second	Third	Fourth
Price Per Share				
1980 High	$ 61⅛	52	49⅛	62⅞
Low	39½	37⅝	39¾	44⅞
1979 High	35⅞	39½	43⅞	50⅝
Low	29½	33½	37	41
Dividends Per Share				
1980	$.45	.45	.45	.45
1979	.30	.35	.35	.35
Number of Stockholders at January 31, 1981				119,529

Phillips common stock, the company's only class of voting securities, is traded primarily on the New York Stock Exchange. The table shows the high and low sales prices and the dividends paid for each quarterly period during the past two years per share of common stock. On March 1, 1980, the quarterly dividend increased to 45 cents a share and on March 2, 1981, to 55 cents a share. Future dividends depend on future earnings, the financial condition of the company and other factors.

Stock Price Trading Range



Selected Financial Data

	Millions of Dollars Except Per Share Amounts				
	1980	1979	1978	1977	1976
Net sales and other operating revenues	$13,377	9,503	6,998	6,284	5,698
Net income	1,070	891	718*	531	412
Net income per share of common stock	7.01	5.77	4.66*	3.46	2.70
Total assets	9,844	8,519	6,834	5,742	5,145
Long-term obligations	773	745	797	923	1,015
Cash dividends declared per share of common stock	1.80	1.35	1.20	.975	.875

**Includes net income of $170 or $1.10 per share from sale of Pacific Petroleums Ltd. stock.*

Report of Certified Public Accountants

The Board of Directors and Stockholders
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheets of Phillips Petroleum Company at December 31, 1980 and 1979, and the related consolidated statements of income and earnings employed in the business and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1980 and 1979, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Tulsa, Oklahoma
February 13, 1981

Consolidated Statements of Income and Earnings Employed in the Business

Years Ended December 31	Thousands of Dollars		
	1980	1979	1978
Revenues			
Sales and other operating revenues	$13,376,563	9,502,775	6,997,782
Equity in earnings of affiliated companies	47,218	29,317	41,223
Sale of Pacific Petroleums Ltd.	—	—	305,974
Other revenues	289,098	212,658	76,963
Total Revenues	13,712,879	9,744,750	7,421,942
Costs and Expenses			
Purchased crude oil and products	6,754,660	4,804,673	3,561,813
Production and operating expenses	1,849,199	1,402,182	1,116,488
Exploratory costs and leasehold impairment	481,407	392,850	242,791
Selling, general and administrative expenses	420,132	366,753	284,100
Depreciation, depletion, amortization and retirements	558,596	395,659	315,741
Taxes other than income taxes	303,533	149,979	114,852
Interest and expense on indebtedness	105,666	96,568	78,746
Total Costs and Expenses	10,473,193	7,608,664	5,714,531
Income before income taxes	3,239,686	2,136,086	1,707,411
Provision for income taxes	2,170,072	1,244,965	989,293
Net Income	1,069,614	891,121	718,118
Earnings Employed in the Business			
At beginning of year	3,553,158	2,870,514	2,337,181
Dividends declared and paid (1980—$1.80 a share; 1979—$1.35 a share; 1978—$1.20 a share)	(274,892)	(208,477)	(184,785)
At end of year	$ 4,347,880	3,553,158	2,870,514
Net Income Per Share of Common Stock	$ 7.01	5.77	4.66
Average Shares Outstanding (in thousands)	152,670	154,427	153,987

See accounting policies and notes to financial statements.

Consolidated Balance Sheets

At December 31	Thousands of Dollars	
	1980	1979
Assets		
Current Assets		
Cash, including time deposits (1980—$1,262,115; 1979—$1,040,092)	$1,414,808	1,185,071
Short-term investments	56,680	114,878
Accounts and notes receivable (less allowances: 1980—$12,670; 1979—$15,490)	1,421,912	1,431,262
Inventories	696,114	603,756
Prepaid expenses and other current assets	104,435	51,171
Total Current Assets	3,693,949	3,386,138
Investments and Long-Term Receivables	367,359	276,115
Properties, Plants and Equipment (less depreciation, depletion and amortization)	5,675,303	4,777,512
Deferred Charges	107,771	78,944
Total Assets	$9,844,382	8,518,709
Liabilities		
Current Liabilities		
Accounts and notes payable	$1,320,584	1,261,091
Long-term debt and obligations due within one year	60,458	78,892
Accrued income and other taxes	1,566,555	1,257,209
Other accruals	157,233	80,924
Total Current Liabilities	3,104,830	2,678,116
Long-Term Debt	698,240	648,352
Other Long-Term Liabilities	270,080	153,410
Obligations under Capital Leases	75,024	96,936
Accrued Contingent Liabilities	164,926	135,291
Deferred Income Taxes	490,425	463,676
Other Deferred Credits	90,180	74,680
Minority Interest in Consolidated Subsidiaries	13,322	11,021
Total	4,907,027	4,261,482
Stockholders' Equity		
Common Stock ($1.25 par value)		
Shares authorized (200,000,000)		
Shares issued (154,449,429)	193,062	193,062
Capital in Excess of Par Value of Common Stock	511,262	511,305
Earnings Employed in the Business	4,347,880	3,553,158
	5,052,204	4,257,525
Treasury Stock (at cost) (1980—2,269,197 shares; 1979—21,698 shares)	(114,849)	(298)
Total Stockholders' Equity	4,937,355	4,257,227
Total Liabilities and Stockholders' Equity	$9,844,382	8,518,709

The company follows the successful efforts method of accounting for its oil and gas operations.
See accounting policies and notes to financial statements.

Consolidated Statements of Changes in Financial Position

Years Ended December 31	Thousands of Dollars		
	1980	1979	1978
Funds Provided from Operations Consisted of			
Net income	$1,069,614	891,121	718,118
Net income from sale of Pacific Petroleums Ltd.	—	—	(169,901)
Non-cash items included in earnings, as follows:			
Depreciation, depletion, amortization and retirements	558,596	395,659	315,741
Dry hole costs and leasehold impairment	279,342	251,840	133,581
Other	20,354	52,888	86,588
	1,927,906	1,591,508	1,084,127
While Funds Were Expended for			
Properties, plants and equipment	1,666,060	1,453,691	940,183
Investments	146,822	39,861	18,734
Reduction of long-term borrowings	66,495	83,800	136,354
Dividends to company stockholders	274,892	208,477	184,785
Purchase of company stock	114,683	—	—
Other	35,181	37,672	49,776
	2,304,133	1,823,501	1,329,832
Which Left a Deficiency of	376,227	231,993	245,705
Additional Funds Were Provided from			
Long-term borrowings	95,118	30,339	3,378
Property sales and retirements	88,411	60,346	50,553
Sale of Pacific Petroleums Ltd.	—	—	435,656
Sale of other investments	68,548	35,824	13,107
Proceeds from sale of company stock	89	15	23,452
Other	5,158	22,614	42,536
	257,324	149,138	568,682
Which Resulted in Increased (Decreased) Working Capital of	$ (118,903)	(82,855)	322,977
Working Capital Changes			
Increase (Decrease) in Current Assets			
Cash and short-term investments	$ 171,539	164,380	808,853
Accounts and notes receivable	(9,350)	586,237	54,477
Inventories	92,358	92,587	12,913
Prepaid expenses and other current assets	53,264	(17,863)	(10,543)
(Increase) Decrease in Current Liabilities			
Accounts and notes payable	(59,493)	(463,961)	(123,261)
Long-term debt and obligations due within one year	18,434	6,126	(6,019)
Taxes and other accruals	(385,655)	(450,361)	(413,443)
Increase (Decrease) in Working Capital	$ (118,903)	(82,855)	322,977

See accounting policies and notes to financial statements.

Accounting Policies

Consolidation Principles and Investments—The consolidated financial statements include the accounts of companies owned more than 50 percent except for an insurance company and a credit company. Investments in these two companies (see Note 1), in companies owned 20 percent to 50 percent, inclusively, and in corporate joint ventures are accounted for using the equity method of accounting (affiliated companies). Investments in other companies are carried at cost except that equity securities for which quoted prices are available are carried at the lower of aggregate cost or market.

Inventories—Crude oil, petroleum products, chemicals and merchandise are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out (LIFO) basis. Materials and supplies are priced at or below average cost.

Oil and Gas Exploration and Development—Oil and gas exploration and development costs are accounted for using the successful efforts method of accounting.
Property Acquisition Costs—Oil and gas leasehold acquisition costs are capitalized. Leasehold impairment costs are recognized based upon unsuccessful exploratory experience. Upon discovery of commercial oil or gas reserves, leasehold costs are transferred to producing leasehold costs.
Exploratory Costs—Geological and geophysical expenses and the costs of carrying and retaining undeveloped properties are charged against income as incurred. Exploratory drilling costs are initially capitalized as incurred. If exploratory wells are determined to be commercially unsuccessful (dry holes), applicable costs are charged to expense.
Development Costs—Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized.
Depletion—Leasehold costs of producing properties are depleted on the unit-of-production method based on estimated proved recoverable oil and gas reserves. Depletion of intangible development costs is based on the unit-of-production method using the estimated proved developed recoverable oil and gas reserves.

Depreciation and Amortization—Depreciation and amortization of properties, plants and equipment, including assets under capital leases, are determined by the group straight-line method, individual unit straight-line method and the unit-of-production method, applying the method considered most appropriate for each type of property.

Property Dispositions—When complete units of depreciable property are retired or sold, accumulated depreciation is reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

Non-Mineral Leases—Capital lease obligations are stated primarily at fair value at inception and accounted for as properties, plants and equipment and as obligations under capital leases.

Dismantlement Costs—The estimated costs, net of salvage values, of dismantling facilities are accrued currently, using the unit-of-production method and the straight-line method, applying the method considered most appropriate for each type of property.

Foreign Currency Translation—In general, current assets (except inventories), current liabilities, long-term receivables and long-term debt are translated to U.S. dollars at currency exchange rates prevailing at balance sheet dates. Inventories, other assets and liabilities are translated at historical currency exchange rates. Revenues, costs and expenses are translated monthly using current exchange rates, except for costs related to balance sheet items which are translated at historical rates. Exchange gains and losses including gains and losses on forward exchange contracts are included in income in the period in which they occur.

Retirement Income Plans—Current service costs and amortization of prior service costs for defined benefit plans covering U.S. employees are accrued based on actuarial studies. Prior service costs are amortized over 10 years for the parent company plan and 20 to 25 years for plans of subsidiary companies. The majority of plans for employees outside the United States are fully insured and are accounted for on a cash basis.

Interest Costs—Interest costs relating to significant long-term capital projects are capitalized.

Income Taxes—Deferred taxes are provided for all significant timing differences in the recognition of revenues and expenses for tax and financial purposes. The allowable investment tax credit is applied currently as a reduction of the provision for income taxes. No provision for U.S. income taxes is made on undistributed earnings of certain companies and corporate joint ventures because of reinvestment plans for such funds.

Net Income Per Share—Net income per share of common stock is calculated based upon the daily weighted average of the number of shares outstanding during the year.

Note 1—Accounting Changes

In 1980 the company adopted the policy of excluding from consolidation certain companies, more than 50 percent owned, whose business activities are unrelated to the consolidated group, and accounting for such companies on an equity basis (see Note 4). The policy was applied to Phillips Petroleum Credit Corporation (Credit), which was formed in 1980. Walton Insurance Limited (Walton) was removed from consolidation at December 31, 1980. This change had no effect on earnings in current or prior years and the financial statements have not been restated.

Commencing in 1980, interest costs relating to significant expenditures for the construction of properties, plants and equipment were capitalized pursuant to Financial Accounting Standards Board (FASB) Statement No. 34, "Capitalization of Interest Cost." The amount of interest capitalized did not have a material effect on net income for 1980.

Note 2—Costs and Revenues Relating to Oil and Gas Producing Activities

Costs and revenues relating to oil and gas producing activities in 1980, 1979 and 1978, are presented on pages 60, 61 and 62.

Note 3—Inventories

Inventories at December 31, consisted of the following:

	Thousands of Dollars	
	1980	1979
Crude oil, petroleum products and chemicals	$509,038	458,803
Merchandise	20,281	19,934
	529,319	478,737
Materials and supplies	166,795	125,019
	$696,114	603,756

The cost of inventories calculated by the first-in, first-out method exceeded the stated value of inventories determined under the last-in, first-out method by approximately $860,000,000 at December 31, 1980 and $643,000,000 at December 31, 1979.

Note 4—Investments and Long-Term Receivables

Components of investments and long-term receivables at December 31, were as follows:

	Thousands of Dollars	
	1980	1979
Investments in and advances to affiliated companies	$280,662	152,046
Other investments	12,224	47,132
Long-term receivables	74,473	76,937
	$367,359	276,115

At December 31, 1980, investments in affiliated companies exceeded the company's equity in the net assets of such companies by $14,740,000; of this amount $10,148,000 is being amortized. Earnings employed in the business at December 31, 1980 and 1979, include $110,079,000 and $4,461,000, respectively, relating to undistributed earnings of affiliated companies. Dividends received from affiliated companies were $26,721,000 in 1980, $24,285,000 in 1979 and $18,517,000 in 1978.

Included in investments in affiliated companies are Credit, which purchases certain accounts receivable from Phillips with funds obtained from the sale of commercial paper, and Walton, which participates in the international reinsurance business including insuring certain Phillips risks. At December 31, 1980, Credit held accounts receivable acquired from Phillips totaling $125,978,000 and had outstanding commercial paper of $102,535,000. Condensed financial data and the company's equity in net income and net assets of Walton follow on page 49:

	Thousands of Dollars		
	1980	1979	1978
Premiums earned from:			
International reinsurance	$ 50,455	34,644	20,636
Phillips	21,320	17,475	17,507
Investment income	14,842	10,943	5,170
Net income	18,559	23,135	14,719
Total assets	159,684	123,806	
Net assets	89,689	76,155	

Note 5—Properties, Plants and Equipment

The company's investments in properties, plants and equipment (at cost, except for capital leases) at December 31, are summarized as follows:

	Thousands of Dollars	
	1980	1979
Energy resources	$5,493,981	4,665,450
Petroleum Products	2,004,510	1,712,472
Chemicals	1,288,445	1,140,213
Other	319,073	237,203
	9,106,009	7,755,338
Less accumulated depreciation, depletion and amortization	3,430,706	2,977,826
	$5,675,303	4,777,512

The above schedule includes assets under capital leases and related accumulated amortization of $174,208,000 and $106,099,000 for 1980 and $192,040,000 and $104,541,000 for 1979.

Note 6—Long-Term Debt

Long-term debt due after one year at December 31, consisted of the following:

	Thousands of Dollars	
	1980	1979
8⅞% Debentures Due 2000	$250,000	250,000
7⅝% Debentures Due 2001	175,459	175,418
6% Guaranteed Sinking Fund Debentures Due 1981	—	820
5⅝% Marine Terminal Revenue Bonds, Series 1977 Due 2007	20,000	20,000
Notes payable to banks, insurance companies and others:		
At 17%-21 3/16% due through 1992	33,000	—
At 8½%-16½% due through 1991	86,775	30,320
At 4%-8% due through 1991*	113,798	153,424
Purchase obligations	19,208	18,370
	$698,240	648,352

*Includes the U.S. dollar equivalents of notes payable denominated in foreign currencies of $8,882 in 1980 and $28,257 in 1979.

Maturities of long-term debt for the next five years are: 1981—$42,824,000 (included in current liabilities); 1982—$22,905,000; 1983—$25,602,000; 1984—$38,665,000; 1985—$36,697,000.

Arrangements existed at year-end 1980 for the company to borrow an additional $34,000,000 to finance a portion of its share of expenditures for the development of the Maureen Field located in the United Kingdom sector of the North Sea. Repayment will commence in 1984 and continue through 1992. Interest rates will change periodically over the life of the borrowings and will be based on the rate offered by prime banks in the London Interbank Market increased by an applicable margin.

The company also has available unused lines of credit totaling $301,250,000 for which it pays no commitment fees. The terms and conditions of any borrowing on these credit lines are normally agreed upon at the time of borrowing. This amount may be used as support for issuance of commercial paper or other short-term borrowing arrangements. These credit lines can be withdrawn or renewed at the option of the bank or canceled at the option of the company.

Note 7—Other Long-Term Liabilities

Other long-term liabilities consist of accrued liabilities for dismantling facilities, principally exploration and production.

Note 8—Non-Mineral Leases

The company leases bulk and service stations, tankers, computers and other facilities and equipment. These leases involve both capital and operating leases.

Capital lease data and minimum rental payments under operating leases having initial or remaining noncancelable lease terms in excess of one year as of December 31, 1980, follow:

	Thousands of Dollars	
	Capital	Operating
1981	$ 24,203	24,948
1982	21,041	19,604
1983	16,066	16,927
1984	14,201	12,953
1985	13,216	6,557
Remaining years	30,093	38,192
Total*	118,820	119,181
Less estimated executory costs	1,042	
Net payments	117,778	
Less imputed interest	25,120	
Present value	92,658	
Amount included in current liabilities	17,634	
Obligations under capital leases	$ 75,024	

*Minimum payments have not been reduced for minimum sublease income due under noncancelable subleases in the amounts of $17,328 for capital leases and $8,515 for operating leases.

Rentals for all operating leases for the years ended December 31, follow:

	Thousands of Dollars		
	1980	1979	1978
Minimum rentals	$64,158	55,656	42,693
Contingent rentals	199	279	362
Total rentals	64,357	55,935	43,055
Less sublease rentals	11,210	8,695	12,540
Net rentals	$53,147	47,240	30,515

Note 9—Litigation and Contingent Liabilities

A number of legal proceedings are pending in various courts or agencies in which the company or a subsidiary appears as plaintiff or defendant, including civil class action suits filed by the states of Florida, California, Arizona, Oregon and Washington (all consolidated for pretrial procedures in the U.S. District Court at Los Angeles, California) against numerous petroleum companies, alleging extensive violations of the antitrust laws relating to the production and refining of crude oil, and the transportation and marketing of crude oil and refined products.

At December 31, 1980 and 1979, the company was contingently liable for $48,817,000 and $27,133,000, respectively, of obligations principally of companies in which the company had a minority interest. In addition, the company had contingent liabilities at both dates with respect to agreements with pipeline companies in which it or its subsidiaries hold stock interests

whereby it might be required to provide such companies with additional funds through advances against future transportation charges to the company for transportation of petroleum liquids, natural gas and refined products tendered by the company to the pipeline companies.

While it is not possible at this time to establish the ultimate amount of liability in respect to contingent liabilities, including those related to legal proceedings, the company is of the opinion that the aggregate amount of any such liabilities for which provision has not been made will not have a material adverse effect on its financial position.

Note 10—Taxes

	Thousands of Dollars		
	1980	1979	1978
Taxes other than income taxes			
Property	$ 40,373	35,812	33,111
Gross production	196,911	54,870	40,918
Social security	38,884	33,785	27,461
Other	27,365	25,512	13,362
	303,533	149,979	114,852
Income taxes			
Federal			
Current	327,321	224,072	284,762
Deferred	71,222	91,957	46,462
Foreign			
Current	1,787,382	910,982	617,532
Deferred	(60,725)	(10,941)	15,954
State and local (current)	44,872	28,895	24,583
	2,170,072	1,244,965	989,293
Total taxes charged to income	2,473,605	1,394,944	1,104,145
Excise taxes collected on the sale of petroleum products and paid to taxing agencies	140,578	155,630	175,663
	$2,614,183	1,550,574	1,279,808
Deferred taxes on timing differences recognized were:			
Excess of tax over financial depreciation	$ 97,304	75,120	69,930
Excess of intangible drilling and certain other costs over financial provisions	49,130	44,444	29,123
Financial provision for dismantlement	(92,102)	(37,503)	(23,097)
Other	(43,835)	(1,045)	(13,540)
	$ 10,497	81,016	62,416

A reconciliation between the provision for income taxes and the amount of income tax determined by applying the federal statutory rate to income before income taxes follows:

	Thousands of Dollars			Percent of Pretax Income		
	1980	1979	1978	1980	1979	1978
Income before income taxes:						
United States	$1,006,849	808,545	534,174	31.1%	37.9	31.3
Outside United States	2,232,837	1,327,541	1,173,237	68.9	62.1	68.7
	$3,239,686	2,136,086	1,707,411	100.0%	100.0	100.0
Federal statutory income tax	$1,490,256	982,598	819,557	46.0%	46.0	48.0
Foreign taxes in excess of federal statutory rate	755,936	340,181	244,969	23.3	15.9	14.4
Investment and energy tax credits	(80,110)	(69,591)	(50,369)	(2.4)	(3.2)	(3.0)
Other	3,990	(8,223)	(24,864)	.1	(.4)	(1.5)
	$2,170,072	1,244,965	989,293	67.0%	58.3	57.9

At December 31, the company's equity in undistributed earnings of certain companies and corporate joint ventures (exclusive of amounts which if remitted in the near future would result in little or no tax because of available tax credits and other deductions) for which deferred taxes have not been provided because of reinvestment plans for such funds, approximated $238,851,000 for 1980, $183,920,000 for 1979 and $146,282,000 for 1978.

The Internal Revenue Service has examined the company's U.S. income tax returns through 1969 and all deficiencies have been settled. The company is of the opinion that any adjustments made to the company's returns for subsequent years will not have a material effect on the financial position of the company.

Note 11—Stockholders' Equity

Changes in common stock and in capital in excess of par value of common stock follow:

	Common Stock			Thousands of Dollars
	Shares Issued	Shares Held in Treasury	Shares Outstanding	Capital in Excess of Par Value of Common Stock
December 31, 1977	153,717,809	23,396	153,694,413	$488,773
Sold to Thrift Plan Trustee	585,600		585,600	17,867
Contributed to the Trust Fund under the Employee Stock Ownership Plan	146,020		146,020	4,652
Issued under Incentive Compensation Plans		(680)	680	9
December 31, 1978	154,449,429	22,716	154,426,713	511,301
Issued under Incentive Compensation Plans		(1,018)	1,018	4
December 31, 1979	154,449,429	21,698	154,427,731	511,305
Purchased for the treasury		2,250,176	(2,250,176)	
Issued under Incentive Compensation Plans		(2,677)	2,677	(43)
December 31, 1980	154,449,429	2,269,197	152,180,232	$511,262

Note 12—Maintenance and Repairs

Maintenance and repairs charged to expense amounted to $360,081,000 in 1980, $280,055,000 in 1979 and $225,279,000 in 1978.

Note 13—Retirement Income Plans

The parent company and its subsidiaries have defined benefit retirement plans covering substantially all employees. Plans for U.S. employees are being funded based on pension costs accrued as determined by actuarial studies. The majority of plans for employees outside the United States are fully insured. Charges against income for the funding of defined benefit plans were $95,780,000 in 1980, $91,219,000 in 1979 and $55,222,000 in 1978. The 1979 increase includes $27,024,000 for the parent company plan because of increasing the level of funding to the maximum allowable.

Accumulated benefits and net assets of plans for U.S. employees at January 1, are presented below:

	Thousands of Dollars			
	Parent Company		Subsidiary Companies	
	1980	1979	1980	1979
Actuarial present value of accumulated plan benefits:				
Vested	$493,985	446,989	32,267	28,652
Nonvested	49,592	68,925	976	838
	$543,577	515,914	33,243	29,490
Net assets available for benefits	$720,013	578,960	34,039	26,417

The assumed rates of return used in determining the above actuarial present values of accumulated plan benefits are 8 percent for the parent company plan and 6 percent for plans of subsidiary companies.

Note 14—Employee Stock Ownership Plan

In 1976, the company adopted an Employee Stock Ownership Plan, effective January 1, 1975, for eligible employees of Phillips Petroleum Company and certain subsidiaries. The plan is funded by an additional 1 percent investment tax credit available for such purpose under the provisions of the Tax Reduction Act of 1975. The Act permits this 1 percent tax credit if an amount equal to the credit is used to provide company stock for employees; therefore, the plan has no effect on net income.

Effective January 1, 1979, the plan was amended to permit eligible employees to make contributions for 1979 and subsequent years. The company is permitted to claim an additional one-half percent tax credit, provided it is contributed to the plan and matched by employee deposits. Under present provisions in the tax law the tax credits are permitted through 1983.

Note 15—Incentive Compensation Plans

The Incentive Compensation Plan, adopted in 1965, provides for awards to key employees in recognition of outstanding contributions to the company's success. Awards, as approved by the Board of Directors, may be in the form of cash or shares of the company's common stock and the aggregate amount of the awards may not exceed 3 percent of the amount by which net income for that year exceeds 6 percent of borrowed and invested capital as of the previous year's end. Provisions of $6,805,000, $7,593,000 and $5,008,000 were made against earnings in 1980, 1979 and 1978, respectively, in connection with the operation of the plan. The provisions were substantially less than the maximum permitted under the plan.

The Long-Term Incentive Compensation Plan, adopted in 1978, provides for the granting of contingent awards to certain key employees as incentives to improve the company's long-term profitability and growth. The amount of awards to be paid is determined, at the close of each performance period, on the basis of performance measurement criteria established by the Board of Directors at the beginning of the performance period. Performance periods have a duration of not less than three years. The aggregate awards for any performance period may not exceed 15/100 of 1 percent of the number of shares of the company's common stock outstanding on the first day of December preceding the period, multiplied by the number of years in the period which are not included in a previously established performance period. Provisions of $5,994,000, $4,956,000 and $1,644,000 were made against earnings in 1980, 1979 and 1978, respectively, in anticipation of awards which may become payable under the plan.

Note 16—Research and Development Costs

Research and development costs charged to expense were $84,259,000 in 1980, $70,341,000 in 1979 and $58,246,000 in 1978.

Note 17—Foreign Currency Translation

Foreign currency translation gains and losses, other than those related to income tax accounts, are included as appropriate in equity in earnings of affiliated companies and costs and expenses. Income taxes applicable to such gains and losses and the translation effects on income tax liabilities are included in the provision for income taxes. Exchange gains and losses, including translation gains and losses, net of tax effects, reduced earnings $16,918,000 in 1980, $13,838,000 in 1979 and $28,070,000 in 1978.

Note 18—Sale of Interest in Pacific Petroleums Ltd.

In November 1978, the company sold its 10,326,321 shares of common stock of Pacific Petroleums Ltd. (Pacific), representing 48.2 percent of total shares outstanding, at a price of $55.50 per share, which was equivalent to $65.02 (Canadian) per share. As a result of the sale, net income increased $169,901,000 ($1.10 per share), after deducting income taxes of $136,073,000. Equity in earnings of Pacific amounted to $38,150,000 in 1978.

Note 19—Segment and Geographic Information

The company is involved primarily in Petroleum and Chemicals operations. Petroleum operations are fully integrated and involve the discovery, production, transportation and refining of crude oil and natural gas together with the subsequent transportation and marketing of products derived therefrom. This segment also provides feedstock for the production of petrochemicals. Chemicals operations involve the manufacture and marketing of a broad range of petroleum-based chemical products including synthetic rubber, carbon black, plastics, fertilizers, synthetic fibers and other products. The Other segment includes mainly coal, uranium, geothermal and oil shale activities.

Segment and geographic information for 1980, 1979 and 1978 is presented on pages 55 and 56. A reconciliation to the financial statements follows:

	Millions of Dollars					
	Net Income			Total Assets		
	1980	1979	1978	1980	1979	1978
Operating profit	$3,246	2,173	1,458			
Identifiable assets				7,820	6,837	5,369
Equity in earnings and assets of affiliated companies	47	29	41	281	152	136
Sale of Pacific Petroleums Ltd.	—	—	306			
Other revenues	184	143	65			
General corporate expenses, interest and income taxes	(2,407)	(1,454)	(1,152)			
Corporate assets				1,743	1,530	1,329
	$1,070	891	718	9,844	8,519	6,834
Return on average total assets	11.5%	12.0	11.8			

Sales and other operating revenues by business segment and by geographic area include both sales to customers outside the consolidated companies and sales within the consolidated companies which are generally at market value. In computing operating profit, none of the following items have been added or deducted: equity in earnings of affiliated companies, general corporate revenues and expenses, interest and income taxes. The company's share of assets and earnings of affiliated companies, which are vertically integrated with operations of the company, is not material.

Identifiable assets by business segment and geographic area are those assets that are used in the company's operations in each segment or area. Corporate assets are principally cash and short-term investments.

Intersegment and intergeographic sales and profits in inventory are eliminated in determining consolidated revenue and identifiable asset totals.

Selected Quarterly Financial Data—Unaudited

	Millions of Dollars Except Per Share Amounts			
	Sales and Other Operating Revenues	Income before Income Taxes	Net Income	Net Income Per Share of Common Stock
1980				
First quarter	$ 3,291	922	285*	1.85*
Second quarter	3,153	858	215	1.41
Third quarter	3,155	734	283	1.86
Fourth quarter	3,778	726	287	1.89
	$13,377	3,240	1,070	7.01
1979				
First quarter	$ 1,946	407	177	1.15
Second quarter	2,160	501	215	1.39
Third quarter	2,449	565	193	1.25
Fourth quarter	2,948	663	306	1.98
	$ 9,503	2,136	891	5.77

**In the second quarter the Norwegian government passed tax legislation which increased income tax rates retroactive to January 1, 1980. As a result, first quarter earnings as originally reported were reduced $54 (35 cents a share).*

Analysis of Results by Business Segment

Years Ended December 31	Millions of Dollars		
	1980	1979	1978
Sales and Other Operating Revenues to Outside Customers			
Petroleum operations—United States	$ 8,747	5,806	4,317
Petroleum operations—outside United States	2,345	1,611	1,274
Chemicals	2,249	2,057	1,384
Other	36	29	23
	13,377	9,503	6,998
Sales within Phillips between Segments			
Petroleum operations—United States	634	512	342
Petroleum operations—outside United States	1,325	593	334
Chemicals	225	233	152
Other	29	22	18
	2,213	1,360	846
Eliminations (intersegment)	(2,213)	(1,360)	(846)
Total	$13,377	9,503	6,998
Operating Profit			
Petroleum operations—United States	$ 1,133	741	627
Petroleum operations—outside United States	2,021	1,189	786
Chemicals	162	289	84
Other	(61)	(39)	(41)
Eliminations (intersegment)	(9)	(7)	2
	$ 3,246	2,173	1,458
Net Income	$ 1,070	891	718
Assets Identifiable by Business Segment			
Petroleum operations—United States	$ 3,998	3,453	2,575
Petroleum operations—outside United States	2,005	1,765	1,480
Chemicals	1,384	1,272	1,039
Other	465	370	291
Eliminations (intersegment)	(32)	(23)	(16)
	$ 7,820	6,837	5,369
Depreciation, Depletion, Amortization and Retirements (see note on page 56)			
Petroleum operations—United States	$ 389	364	216
Petroleum operations—outside United States	371	215	182
Chemicals	64	57	46
Other	14	11	10
Corporate	—	—	(5)
Capital Expenditures—Properties, Plants and Equipment			
Petroleum operations—United States	$ 895	845	383
Petroleum operations—outside United States	423	392	338
Chemicals	181	114	126
Other	107	85	80
Corporate	60	18	13

Analysis of Results by Geographic Area

Years Ended December 31	Millions of Dollars		
	1980	1979	1978
Sales and Other Operating Revenues to Outside Customers			
United States	$10,589	7,539	5,551
Europe-Africa	2,566	1,815	1,254
Other areas	222	149	193
	13,377	9,503	6,998
Sales within Phillips between Geographic Areas			
United States	97	105	37
Europe-Africa	1,326	594	334
Other areas	18	2	3
	1,441	701	374
Eliminations (intergeographic)	(1,441)	(701)	(374)
Total	$13,377	9,503	6,998
Operating Profit			
United States	$ 1,217	969	673
Europe-Africa	2,048	1,264	784
Other areas	(10)	(55)	1
Eliminations (intergeographic)	(9)	(5)	—
	$ 3,246	2,173	1,458
Net Income	$ 1,070	891	718
Assets Identifiable by Geographic Area			
United States	$ 5,628	4,949	3,833
Europe-Africa	2,018	1,780	1,434
Other areas	203	128	117
Eliminations (intergeographic)	(29)	(20)	(15)
	$ 7,820	6,837	5,369
Export Sales	$ 374	309	201

Depreciation, depletion, amortization and retirements on page 55 includes $279 in 1980, $252 in 1979 and $134 in 1978 of dry hole costs and leasehold impairment, which are included in exploratory costs and leasehold impairment in the Consolidated Statements of Income on page 44.

Oil and Gas Operations

Consistent with FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies," and in accordance with regulations of the Securities and Exchange Commission (SEC), the company is making certain disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, because of the experimental aspects of developing such information and the subjective judgments involved, it is emphasized that some of the data are necessarily imprecise and represent only approximate amounts. Accordingly, this information may not necessarily represent the present financial condition of the company or its expected future results.

Petroleum liquids (oil) includes crude oil, condensate and natural gas liquids. Natural gas (gas) quantities are net of extracted natural gas liquids.

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Proved Reserves Worldwide—Unaudited

	Proved Petroleum Liquids Millions of Barrels			
	United States	Europe-Africa	Other Areas	Total
Developed and Undeveloped				
Beginning of 1978	550	1,073	36	1,659
Revisions of previous estimates	2	(202)	(10)	(210)
Improved recovery	23	—	—	23
Purchases of reserves in place	1	—	—	1
Extensions, discoveries and other additions	4	14	—	18
Production	(58)	(59)	(10)	(127)
Sales of reserves in place	—	—	—	—
End of 1978	522	826	16	1,364
Revisions of previous estimates	23	(35)	(16)	(28)
Improved recovery	17	—	—	17
Purchases of reserves in place	—	—	—	—
Extensions, discoveries and other additions	4	—	—	4
Production	(58)	(60)	—	(118)
Sales of reserves in place	—	(19)	—	(19)
End of 1979	508	712	—	1,220
Revisions of previous estimates	36	(136)	—	(100)
Improved recovery	2	—	—	2
Purchases of reserves in place	—	—	—	—
Extensions, discoveries and other additions	9	6	—	15
Production	(57)	(66)	—	(123)
Sales of reserves in place	—	—	—	—
End of 1980	498	516	—	1,014
Developed				
Beginning of 1978	471	610	17	1,098
End of 1978	455	518	16	989
End of 1979	441	486	—	927
End of 1980	436	399	—	835

- "Proved reserves" are those quantities of petroleum liquids and natural gas which, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions. As additional information becomes available or conditions change, proved reserve estimates must be revised.
- "Developed reserves" are those portions of proved petroleum liquids and natural gas reserves which are recoverable through existing well bores and production equipment and facilities.
- "Proved petroleum liquids" includes crude oil quantities attributable to fluid injection pressure maintenance programs planned for the Prudhoe Bay Field in Alaska (estimated 28 million barrels) and designed into the development program for the Maureen Field in the U.K. sector of the North Sea.

	Proved Natural Gas Billions of Cubic Feet			
	United States	Europe-Africa	Other Areas	Total
Developed and Undeveloped				
Beginning of 1978	4,580	5,559	113	10,252
Revisions of previous estimates	(256)	(1,284)	(66)	(1,606)
Improved recovery	—	—	—	—
Purchases of reserves in place	3	—	—	3
Extensions, discoveries and other additions	129	—	—	129
Production	(445)	(186)	—	(631)
Sales of reserves in place	(4)	—	—	(4)
End of 1978	4,007	4,089	47	8,143
Revisions of previous estimates	(16)	184	6	174
Improved recovery	—	—	—	—
Purchases of reserves in place	1	—	—	1
Extensions, discoveries and other additions	57	—	—	57
Production	(393)	(188)	—	(581)
Sales of reserves in place	—	(72)	—	(72)
End of 1979	3,656	4,013	53	7,722
Revisions of previous estimates	(80)	(422)	(2)	(504)
Improved recovery	—	—	—	—
Purchases of reserves in place	—	—	—	—
Extensions, discoveries and other additions	118	—	—	118
Production	(331)	(231)	—	(562)
Sales of reserves in place	—	—	—	—
End of 1980	3,363	3,360	51	6,774
Developed				
Beginning of 1978	4,457	3,011	94	7,562
End of 1978	3,887	2,635	47	6,569
End of 1979	3,523	3,131	53	6,707
End of 1980	3,206	3,057	51	6,314

- "Proved natural gas" includes an estimated 132 billion cubic feet of natural gas reserves from Prudhoe Bay Field in Alaska in 1978, 132 in 1979 and 132 in 1980 and 650 billion cubic feet of natural gas reserves from fields in Nigeria in 1978, 905 in 1979 and 905 in 1980 for which there presently is no market.
- "Natural gas reserves" are computed at 14.65 pounds per square inch absolute and 60° Fahrenheit.
- Excluded from proved petroleum liquids are reserves attributable to long-term supply agreements. These reserves are located only in "Other Areas" and at the end of 1978, 1979 and 1980 were 8, 5 and 2 million barrels, respectively. Millions of barrels received during 1978, 1979 and 1980 were 8, 2 and 2, respectively.
- Excluded from proved natural gas are reserves attributable to long-term supply agreements. These reserves are located only in "Other Areas" and at the end of 1978, 1979 and 1980 were 19, 19 and 4 billion cubic feet, respectively. No natural gas was received from these reserves during the three year period.

Capitalized Costs Relating to Oil and Gas Producing Activities—Audited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
December 31, 1980				
Proved properties	$1,738	1,756	122	3,616
Unproved properties	645	22	24	691
Total	2,383	1,778	146	4,307
Accumulated depreciation, depletion and amortization	(1,282)	(366)	(71)	(1,719)
Net	$1,101	1,412	75	2,588
December 31, 1979				
Proved properties	$1,578	1,487	90	3,155
Unproved properties	498	4	22	524
Total	2,076	1,491	112	3,679
Accumulated depreciation, depletion and amortization	(1,135)	(196)	(60)	(1,391)
Net	$ 941	1,295	52	2,288
December 31, 1978				
Proved properties	$1,548	1,253	102	2,903
Unproved properties	273	4	22	299
Total	1,821	1,257	124	3,202
Accumulated depreciation, depletion and amortization	(1,021)	(140)	(65)	(1,226)
Net	$ 800	1,117	59	1,976

- "Capitalized Costs Relating to Oil and Gas Producing Activities" includes the cost of equipment and facilities which support only oil and gas producing activities. Not included are investments in gasoline plants and related systems as well as downstream manufacturing, distribution and marketing facilities required to convert raw petroleum liquids and natural gas into consumable products.
- "Proved properties" includes all capitalized costs related to oil and gas leaseholds containing proved petroleum liquids and natural gas reserves, wells and related equipment and facilities (including uncompleted well costs) and support equipment.
- "Unproved properties" includes all capitalized costs related to oil and gas leaseholds which are under exploration including those where petroleum liquids and natural gas were found but not in sufficient quantities to be considered proved reserves.

Costs Incurred in Oil and Gas Producing Activities—Audited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
1980				
Property acquisition	$158	19	5	182
Exploration	210	130	101	441
Development	157	230	10	397
Production (lifting)	398	426	13	837
Total	$923	805	129	1,857
Depreciation, depletion, amortization and retirements	$296	337	28	661
1979				
Property acquisition	$242	—	1	243
Exploration	105	81	62	248
Development	114	241	13	368
Production (lifting)	220	305	14	539
Total	$681	627	90	1,398
Depreciation, depletion, amortization and retirements	$277	151	51	479
1978				
Property acquisition	$ 16	—	1	17
Exploration	64	78	73	215
Development	95	226	6	327
Production (lifting)	185	209	19	413
Total	$360	513	99	972
Depreciation, depletion, amortization and retirements	$136	111	67	314

- "Costs incurred" includes both capitalized and expensed items.
- "Property acquisition" includes the costs of acquiring undeveloped oil and gas leaseholds.
- "Exploration" includes geological and geophysical expenses, the cost of carrying and retaining undeveloped leaseholds, and exploratory drilling costs.
- "Development" includes the cost of drilling and equipping development wells and building related production facilities for extracting, treating, gathering and storing petroleum liquids and natural gas.
- "Production (lifting) costs" consists of those incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. Also included is the U.S. crude oil excise tax. It does not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.

Revenues from Oil and Gas Producing Activities — Audited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
1980				
Sales to unaffiliated entities	$ 697	1,051	100	1,848
Sales to unconsolidated affiliated entities and transfers to consolidated operations	602	1,811	—	2,413
Total	1,299	2,862	100	4,261
Production (lifting) costs	398	426	13	837
Net Revenues	$ 901	2,436	87	3,424
1979				
Sales to unaffiliated entities	$ 502	560	45	1,107
Sales to unconsolidated affiliated entities and transfers to consolidated operations	396	1,074	13	1,483
Total	898	1,634	58	2,590
Production (lifting) costs	220	305	14	539
Net Revenues	$ 678	1,329	44	2,051
1978				
Sales to unaffiliated entities	$ 434	434	122	990
Sales to unconsolidated affiliated entities and transfers to consolidated operations	294	667	1	962
Total	728	1,101	123	1,952
Production (lifting) costs	185	209	19	413
Net Revenues	$ 543	892	104	1,539

- "Sales" excludes revenues received from operation of gasoline plants and related gas systems. Transfers are valued at prices which approximate market prices.
- "Production (lifting) costs" consists of those incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. Also included is the U.S. crude oil excise tax. It does not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.
- "Net revenues," the difference between total sales and transfers and production (lifting) costs, should not be equated to net income since no deduction has been made for such costs and expenses as exploration, distribution, selling, administrative, interest and income taxes.
- "Other Areas" includes revenues ($99 million for 1980, $58 million for 1979 and $99 million for 1978) and production (lifting) costs ($13 million for 1980, $12 million for 1979 and $11 million for 1978) applicable to long-term supply agreements in which the company acts as producer.

Future Net Revenues from Estimated Production—Unaudited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
Proved Reserves				
1981	$ 907	1,903	(1)	2,809
1982	968	1,885	(13)	2,840
1983	867	1,726	1	2,594
Remainder	6,951	14,761	29	21,741
	$9,693	20,275	16	29,984
Proved Developed Reserves				
1981	$ 939	1,827	—	2,766
1982	933	1,716	—	2,649
1983	832	1,545	2	2,379
Remainder	6,025	11,596	30	17,651
	$8,729	16,684	32	25,445
Proved Reserves Applicable to Long-Term Supply Agreements				
1981	$ —	—	18	18
1982	—	—	11	11
1983	—	—	8	8
Remainder	—	—	7	7
	$ —	—	44	44

- "Future Net Revenues from Estimated Production" of proved petroleum liquids and natural gas reserves as of December 31, 1980, were determined by applying guidelines established by the SEC.
- "Future net revenues" are the excess of estimated gross revenues to be received from the future sale or transfer of proved petroleum liquids and natural gas reserves as estimated at December 31, 1980, over the "estimated remaining expenditures" required to complete development of and produce such reserves.
- "Gross revenues" were determined by pricing estimated future years' production of December 31, 1980 proved petroleum liquids and natural gas reserves at average prices realized during December 1980 adjusted for decontrol of U.S. petroleum liquids net of applicable U.S. crude oil excise taxes.
- "Estimated remaining expenditures" and estimated production expenses were generally based on costs experienced during 1980.
- Production forecasts, although based on the best and latest information available concerning reservoir conditions, frequently fail to correlate with actual production experience because of unforeseen reservoir conditions, time delays and other factors.
- "Future net revenues," encumbered by estimated remaining expenditures, are not directly comparable with "net revenues" presented on page 62.
- "Future net revenues" should not be equated with future net income since such future costs and expenses as exploration, distribution, selling, administrative, interest and income taxes were not considered.

Present Value of Estimated Future Net Revenues—Unaudited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
December 31, 1980				
Proved Reserves	$5,101	11,291	(3)	16,389
Proved Reserves Applicable to Long-Term Supply Agreements	—	—	38	38
Proved Developed Reserves	4,793	9,457	11	14,261
December 31, 1979				
Proved Reserves	4,598	11,791	15	16,404
Proved Reserves Applicable to Long-Term Supply Agreements	—	—	71	71
Proved Developed Reserves	4,311	8,376	15	12,702
December 31, 1978				
Proved Reserves	2,984	6,917	84	9,985
Proved Reserves Applicable to Long-Term Supply Agreements	—	—	77	77
Proved Developed Reserves	2,899	4,449	84	7,432

• "Present Value of Estimated Future Net Revenues" was determined by discounting "Future Net Revenues from Estimated Production" presented on page 63 at the 10 percent rate prescribed by the SEC.

Changes in Present Value of Estimated Future Net Revenues—Unaudited

Years Ended December 31	Millions of Dollars	
	1980	1979
Increases		
Additions and revisions	$ 3,114	8,174
Less related estimated future development and production costs	135	72
Net additions and revisions	2,979	8,102
Purchases of reserves in place	—	—
Expenditures that reduced estimated future development costs	397	367
Total Increases	3,376	8,469
Decreases		
Sales of oil and gas and value of transfers, net of production costs	3,424	2,051
Sales of reserves in place	—	5
Total Decreases	3,424	2,056
Net (decrease) increase	(48)	6,413
Beginning of year	16,475	10,062
End of year	$16,427	16,475

• "Changes in Present Value of Estimated Future Net Revenues" from proved petroleum liquids and natural gas reserves, provides a reconciliation between the total present value of estimated future net revenues of the company's proved petroleum liquids and natural gas reserves at the beginning and at the end of the respective years.

Summary of Oil and Gas Producing Activities on Basis of Reserve Recognition Accounting—Unaudited

Years Ended December 31	Millions of Dollars	
	1980	1979
Additions and Revisions to Estimated Proved Oil and Gas Reserves		
Additions to estimated proved reserves, gross	$ 405	284
Revisions to estimates of reserves proved in prior years:		
Changes in prices	9,041	8,800
Other	(7,980)	(1,916)
Accretion of discount	1,648	1,006
	3,114	8,174
Evaluated Acquisition, Exploration, Development and Production Costs		
Costs incurred, including impairments	450	343
Present value of estimated future development and production costs	135	72
	585	415
Additions and Revisions to Proved Reserves over Evaluated Costs	2,529*	7,759*
Provision for Income Taxes	2,600	5,216
Results of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting	$ (71)	2,543

**Income before income taxes for Phillips oil and gas operations as determined by applying the successful efforts method of accounting, as included in the Consolidated Statements of Income on page 44, was $2.5 billion in 1980 and $1.4 billion in 1979.*

- "Reserve recognition accounting" (RRA) differs sharply from successful efforts accounting. The successful efforts accounting model recognizes income only at the point of production and sale of petroleum liquids and natural gas. In contrast, the RRA concept recognizes income at the point of reserve discovery or revision.
- Average worldwide sales prices for petroleum liquids and natural gas increased substantially between December 1978 and December 1980. As a result of these higher prices, future net revenues from estimated production of proved reserves increased and, when discounted at 10 percent, provided additional present values of estimated future net revenues as reflected in the Summary.
- The "Other" 1980 revision of $7,980 million is attributable to two main factors. First, the company, based on new studies, announced in March and November of 1980 reductions in its estimated proved petroleum liquids and proved natural gas reserves in the Greater Ekofisk area fields in the Norwegian North Sea. See "Proved Reserves Worldwide" on pages 58 and 59. Second, future costs increased as a result of institution of the so called "windfall profits tax" on crude oil by the U.S. government during 1980.
- "Accretion of discount" was computed by applying the 10 percent rate to the beginning-of-year present values of estimated future net revenues.
- Costs of unsuccessful exploration activities, including impairment of leasehold acquisition costs and abandonment of suspended exploration projects, are reflected in "costs incurred."
- At year-end, costs of exploratory wells in progress, exploratory projects under evaluation and unimpaired oil and gas leaseholds not yet reflected in the Summary pending a final decision were $589 million in 1980 and $434 million in 1979. Property acquisition cost of leases held was $436 million in 1980 and $347 million in 1979 net of accumulated impairment reserve of $255 million in 1980 and $177 million in 1979. The impairment provisions were $92 million in 1980 and $134 million in 1979.
- "Provision for income taxes" was determined using current tax rates for each country in which the company operates. Expressed as a percentage of "additions and revisions to proved reserves over evaluated costs," the provision for income taxes was 103 percent in 1980 and 67 percent in 1979. The increase is attributable principally to higher tax rates legislated by Norway in 1980.

Supplementary Information on Changing Prices and the Effects of General Inflation—Unaudited

Inflation is a term commonly used today to identify the erosion in the purchasing power of the dollar. While inflation affects everyone, its effects are not readily identified in conventional financial reporting which is based on historical dollars. To provide information about the effects of inflation, the FASB established standards for reporting certain effects of price changes on business enterprises. In compliance with FASB Statement No. 33, "Financial Reporting and Changing Prices," supplemental data are provided in the accompanying schedules.

These schedules present financial data stated in historical dollars, in dollars adjusted for general inflation on a comprehensive basis (constant dollars) and in dollars adjusted for inflation in specific prices (current cost). The data should be considered as indicative of approximate directional effects and not as precise measures of values or worth. The comparisons are for the purpose of assessing the effects of changing prices on the company in the following areas:

- Operations performance
- Changes in general purchasing power
- Changes in operating capability
- Future cash flows

The following comments are provided to assist readers in understanding the reasons for the different "income" amounts and the possible meanings of the data.

Financial Statements—Historical Dollars

Phillips primary financial statements are prepared on a historical cost basis according to generally accepted accounting principles and are shown on pages 44 to 54. These statements report the results of transactions in terms of actual dollars received or expended at the time regardless of the relative purchasing power of those dollars. The historical accounting model was never intended to provide a measure of relative economic values but rather to provide a record of transactions at historic rates. Accordingly, while such statements do contain information that is objective, quantifiable and independently verifiable, investments made in different years are added together as if the recorded dollars were of equal purchasing power. As a result, amortization of prior year's costs is matched against current year's revenues as if the dollars were of equal purchasing power.

Data Adjusted for General Inflation — Constant Dollar Data

Constant dollar information is prepared from the primary financial statements by restating the historical financial information into common units of measure, that is, units having the same purchasing power (constant dollars). The Consumer Price Index—All Urban Consumers (CPI-U), a comprehensive measure of the effects of general inflation published by the U.S. Department of Labor, is used in making this restatement.

The restatement of historical cost to constant dollars seeks only to correct distortions caused by recording transactions in dollars of varying purchasing power. The restated amounts do not represent appraised values, replacement costs, current values or any other measure of current value of the underlying assets, and in some cases may not be representative of inflation in the petroleum industry.

Changes in Specific Prices—Current Cost Data

Current cost information is based on estimates of the dollars currently required to operate the business and to replace existing assets with assets having the same service potential. Current costs used to replace historical costs are based upon the best available data derived from current production costs, current invoice prices, industry-related published indices and internally generated indices.

Current costs are not necessarily the same costs that would be incurred if existing assets were, in fact, replaced currently. In certain instances, existing assets would be replaced by technologically superior assets; in other circumstances, the assets would not or could not be replaced.

Current costs are not costs in the usual sense because they do not represent money spent or obligations incurred; rather, they represent the current costs of hypothetical transactions. Although such estimates are highly subjective and imprecise, they can be viewed as indicators of the impact of changing prices on the company and its operations.

Summary

Under both constant dollar and current cost methods, net income of the business is lower than that determined under the historical cost method. There are two principal reasons for the lower net income: (1) the historical dollar capital recovery charge (depreciation, depletion, amortization and retirements) does not reflect the constant or current dollar cost of capital asset maintenance, and, (2) the provision for income taxes does not decline with reductions in real income before income taxes. The provision for income taxes included in both constant dollar and current cost statements is unchanged from the amount reported in the primary statement of income as required by FASB Statement No. 33 except for restatement to end-of-year dollars. Effective tax rates for 1980 under both methods, 75 percent and 83 percent, respectively, are significantly higher than statutory rates since income taxes are based on reported income rather than on true economic results.

Comparative Summary Financial Data—Unaudited

	Millions of Dollars Except Per Share Amounts					
	1980 (1)			1979 (1)		
	Historical	Constant Dollars	Current Cost	Historical	Constant Dollars	Current Cost
Summary Consolidated Balance Sheets						
Properties, Plants and Equipment (net)	$ 5,675	9,293	18,356	4,778	7,261	17,331
Inventories	696	1,007	1,626	604	944	1,389
Other Assets	3,473	3,638	3,519	3,137	3,668	3,515
Liabilities	4,907	4,956	4,952	4,262	4,831	4,822
Stockholders' Equity (net assets)	4,937	8,982	18,549	4,257	7,042	17,413
Summary Consolidated Statements of Income						
Revenues	$13,713	14,336	14,336	9,745	11,559	11,559
Costs and Expenses						
Costs and operating expenses (2)	8,806	9,236	9,063	6,348	7,557	7,331
Depreciation, depletion, amortization and retirements (3)	838	1,222	1,678	647	1,056	1,552
Other	829	868	868	614	729	729
Provision for income taxes	2,170	2,272	2,272	1,245	1,480	1,480
Net Income	$ 1,070	738	455	891	737	467
Net Income Per Share	$ 7.01	4.84	2.98	5.77	4.77	3.02
Unrealized Gains Attributable to Net Monetary Amounts Owed		$ 128	128		130	130
Increase in Current Cost of Inventories, Properties, Plants and Equipment			$ 3,451			7,169
Effect of Increase in General Price Level			2,109			1,653
Excess Current Cost over General Price Level			$ 1,342			5,516

Five-Year Comparison of Selected Supplementary Financial Data—Unaudited

	Millions of Dollars Except Per Share Amounts				
Years Ended December 31	1980	1979	1978	1977	1976
Revenues					
In historical dollars	$13,713	9,745	7,422	6,406	5,837
In constant dollars (1)	14,336	11,559	9,815	9,120	8,846
Dividends Paid Per Share					
In historical dollars	$ 1.80	1.35	1.20	.98	.88
In constant dollars (1)	1.88	1.60	1.59	1.40	1.33
Market Price Per Share—end of year					
In historical dollars	$ 58.75	48.00	31.63	30.63	33.06
In constant dollars (1)	58.75	53.95	40.28	42.53	49.01
Consumer Price Index—average for year	246.8	217.4	195.4	181.5	170.5
Consumer Price Index—end of year	258.4	229.9	202.9	186.1	174.3

(1)Both constant dollars and current cost are stated in 1980 end-of-year dollars.

(2)Includes $202 in 1980 and $141 in 1979 of geological and geophysical expenses and lease rentals, which are included in exploratory costs and leasehold impairment in the Consolidated Statements of Income on page 44.

(3)Includes $279 in 1980 and $252 in 1979 of dry hole costs and leasehold impairment, which are included in exploratory costs and leasehold impairment in the Consolidated Statements of Income on page 44.

Consolidated Statements of Income

Years Ended December 31	Millions of Dollars Except Per Share Amounts									
	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Revenues										
Sales and other operating revenues	$13,377	9,503	6,998	6,284	5,698	5,134	4,981	2,990	2,513	2,363
Sale of Pacific Petroleums Ltd.	—	—	306	—	—	—	—	—	—	—
Other revenues (including equity in earnings of affiliated companies)	336	242	118	122	139	79	125	83	54	49
Total Revenues	13,713	9,745	7,422	6,406	5,837	5,213	5,106	3,073	2,567	2,412
Costs and Expenses										
Purchased crude oil and products	6,755	4,805	3,562	3,369	3,197	2,889	2,879	1,511	1,207	1,149
Production and operating expenses	1,849	1,402	1,117	953	736	709	668	577	504	466
Exploratory costs and leasehold impairment	481	393	243	170	176	207	163	*	*	*
Selling, general and administrative expenses	420	367	284	292	322	322	311	291	298	288
Depreciation, depletion, amortization and retirements	559	395	315	240	217	191	179	239	223	201
Taxes other than income taxes	303	150	115	104	93	94	85	69	64	60
Interest and expense on indebtedness	106	97	79	82	68	50	53	62	59	63
Total Costs and Expenses	10,473	7,609	5,715	5,210	4,809	4,462	4,338	2,749	2,355	2,227
Income before income taxes	3,240	2,136	1,707	1,196	1,028	751	768	324	212	185
Provision for income taxes	2,170	1,245	989	665	616	416	352	94	64	53
Income before extraordinary items and accounting change	1,070	891	718	531	412	335	416	230	148	132
Extraordinary items and accounting change	—	—	—	—	—	—	(28)	(18)	—	—
Net Income	$ 1,070	891	718	531	412	335	388	212	148	132
Per Average Share Outstanding**										
Income before extraordinary items and accounting change	$ 7.01	5.77	4.66	3.46	2.70	2.20	2.74	1.52	.99	.89
Net income	7.01	5.77	4.66	3.46	2.70	2.20	2.56	1.40	.99	.89
Dividends paid per share	1.80	1.35	1.20	.97½	.87½	.80	.72½	.65	.65	.65
Income before Extraordinary Items and Accounting Change										
As percent of average total assets	11.5	12.0	11.8	9.8	8.4	7.6	10.4	6.4	4.6	4.3
As percent of total revenues	7.8	9.1	9.7	8.3	7.1	6.4	8.1	7.5	5.8	5.5
Percent of Total Revenues from Sales Outside U.S.	25.2	25.3	29.5	21.1	22.5	18.6	24.5	21.5	16.1	17.4

*Not available.

**Adjusted for two-for-one stock split in 1977.

Consolidated Balance Sheets

At December 31	Millions of Dollars Except Per Share Amounts									
	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Assets										
Current Assets										
Cash and short-term investments	$1,471	1,300	1,136	327	702	523	393	441	338	225
Accounts and notes receivable (net)	1,422	1,431	845	791	715	634	616	507	384	383
Inventories:										
Crude oil, petroleum products, chemicals and merchandise	529	479	403	385	328	340	369	239	246	260
Materials and supplies	167	125	108	113	118	129	92	50	35	36
Prepaid expenses and other current assets	105	51	69	79	41	39	28	27	17	20
Total Current Assets	3,694	3,386	2,561	1,695	1,904	1,665	1,498	1,264	1,020	924
Investments and Long-Term Receivables (net)	367	276	230	501	460	437	399	423	378	392
Properties, Plants and Equipment (net)	5,675	4,778	3,945	3,467	2,721	2,506	2,236	2,144	1,858	1,838
Deferred Charges	108	79	98	79	60	43	21	17	14	13
Total Assets	$9,844	8,519	6,834	5,742	5,145	4,651	4,154	3,848	3,270	3,167
Liabilities										
Current Liabilities										
Accounts and notes payable	$1,321	1,261	797	674	559	526	543	401	276	254
Long-term debt and obligations due within one year	60	79	85	79	70	73	62	82	53	52
Accrued income and other taxes	1,567	1,257	827	413	429	262	265	118	113	103
Other accruals	157	81	61	61	51	49	43	44	41	36
Total Current Liabilities	3,105	2,678	1,770	1,227	1,109	910	913	645	483	445
Long-Term Debt	698	648	676	767	839	893	658	799	792	800
Other Long-Term Liabilities	270	154	89	49	1	2	2	—	—	—
Obligations under Capital Leases	75	97	121	156	176	200	221	242	—	—
Accrued Contingent Liabilities	165	135	144	94	60	66	60	90	67	61
Deferred Income Taxes	491	464	392	350	257	170	35	48	61	63
Other Deferred Credits	90	75	57	71	73	75	77	74	42	42
Minority Interest in Consolidated Subsidiaries	13	11	10	10	11	12	8	5	5	7
Total	4,907	4,262	3,259	2,724	2,526	2,328	1,974	1,903	1,450	1,418
Stockholders' Equity										
Common Stock ($1.25 par value)	193	193	193	192	191	191	191	190	190	190
Capital in Excess of Par Value	511	511	511	489	472	455	451	444	441	437
Earnings Employed in the Business	4,348	3,553	2,871	2,337	1,956	1,677	1,542	1,326	1,212	1,161
	5,052	4,257	3,575	3,018	2,619	2,323	2,184	1,960	1,843	1,788
Treasury Stock (at cost)	(115)	—	—	—	—	—	(4)	(15)	(23)	(39)
Total Stockholders' Equity	4,937	4,257	3,575	3,018	2,619	2,323	2,180	1,945	1,820	1,749
Total Liabilities and Stockholders' Equity	$9,844	8,519	6,834	5,742	5,145	4,651	4,154	3,848	3,270	3,167
Stockholders' Equity Per Share*	$32.44	27.57	23.15	19.63	17.11	15.23	14.32	12.85	12.07	11.70

**Adjusted for two-for-one stock split in 1977.*

Consolidated Statements of Changes in Financial Position

Years Ended December 31	Millions of Dollars									
	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Source										
Funds from operations	$1,928	1,592	1,084	969	803	710	728	469	367	333
Long-term debt	95	30	3	76	67	325	85	86	50	257
Property sales and retirements (including extraordinary items)	88	60	51	53	199	99	107	43	29	44
Sales of investments (including extraordinary items)	69	36	449	1	24	4	20	10	26	14
Capital stock	—	—	23	17	18	8	18	12	20	21
Other	5	23	43	18	—	1	15	29	1	(3)
	$2,185	1,741	1,653	1,134	1,111	1,147	973	649	493	666
Application										
Properties, plants and equipment:										
Energy resources	$1,058	876	589	793	471	476	420	245	196	143
Petroleum Products	336	423	187	83	110	140	92	46	28	27
Chemicals	181	114	126	161	121	57	68	36	39	52
Other	91	41	38	41	14	6	7	2	2	3
Total properties, plants and equipment	1,666	1,454	940	1,078	716	679	587	329	265	225
Investments	147	40	19	36	36	35	9	23	6	23
Reduction in long-term debt	66	84	136	163	149	113	255	102	58	145
Cash dividends	275	208	185	150	134	122	110	98	98	97
Purchase of company stock	115	—	—	—	—	—	—	—	—	—
Other	35	38	50	34	35	29	46	(4)	8	16
Increase (decrease) in working capital	(119)	(83)	323	(327)	41	169	(34)	101	58	160
	$2,185	1,741	1,653	1,134	1,111	1,147	973	649	493	666

Properties, Plants and Equipment

Gross Investment										
Energy resources	$5,494	4,665	4,061	3,621	2,943	2,576	2,410	2,183	1,910	1,803
Petroleum Products	2,005	1,713	1,331	1,242	1,231	1,432	1,333	1,289	1,142	1,144
Chemicals	1,288	1,140	1,062	949	800	742	707	841	764	733
Other	319	237	202	161	142	118	110	105	98	99
	$9,106	7,755	6,656	5,973	5,116	4,868	4,560	4,418	3,914	3,779
Net Investment										
Energy resources	$3,328	2,869	2,477	2,204	1,618	1,356	1,171	1,001	818	759
Petroleum Products	1,374	1,106	742	634	635	726	659	642	559	592
Chemicals	750	654	605	538	391	370	356	452	433	436
Other	223	149	121	91	77	54	50	49	48	51
	$5,675	4,778	3,945	3,467	2,721	2,506	2,236	2,144	1,858	1,838

Chemicals

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Operating Revenues					Millions of Dollars					
Basic petrochemicals and specialty chemicals	$ 925	813	478	420	417	319	424	167	119	108
Plastic resins	467	427	243	220	209	130	131	95	62	51
Rubber chemicals	296	296	254	222	190	165	173	111	93	81
Consumer products	283	229	194	174	160	152	138	110	100	87
Fertilizers	96	80	63	77	78	114	160	158	101	92
Synthetic fibers	74	77	73	76	71	92	161	151	103	70
Other sales and services	108	135	79	85	105	86	132	90	52	48
	$2,249	2,057	1,384	1,274	1,230	1,058	1,319	882	630	537

Other Data

Shares outstanding at year-end* (in millions)	152.2	154.4	154.4	153.7	153.1	152.5	152.2	151.4	150.8	149.5
Stockholders at year-end (in thousands)	119.9	121.2	122.6	122.3	120.2	126.9	131.6	136.0	153.3	166.0
Total payroll including employee benefits (in millions)	$1,015	863	720	613	550	529	479	415	387	353
Employees at year-end (in thousands)	32.4	30.3	30.0	28.4	27.8	30.5	30.8	33.4	35.3	33.3

**Adjusted for two-for-one stock split in 1977.*

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Energy Resources										
Net Crude Oil Production					Thousands of Barrels Daily					
United States										
Texas	39.2	42.8	45.5	48.4	50.8	54.2	56.3	57.7	57.7	54.9
Alaska	29.9	26.4	24.2	9.9	4.6	4.2	4.1	4.7	4.5	5.5
Louisiana	15.8	15.8	15.7	17.4	18.4	18.0	19.6	21.5	23.3	24.8
Oklahoma	8.4	9.0	9.8	10.1	10.5	10.4	11.8	13.7	17.5	15.6
New Mexico	6.0	5.4	5.6	6.2	6.8	6.9	7.4	8.0	9.0	9.8
Arkansas	4.0	3.9	4.5	4.7	4.1	4.1	3.1	2.4	2.7	2.6
Wyoming	2.8	3.4	4.1	4.7	4.6	4.2	4.5	2.0	2.7	3.7
Other states	14.0	14.7	15.6	15.6	15.5	16.4	16.7	12.3	12.8	13.2
Total United States	120.1	121.4	125.0	117.0	115.3	118.4	123.5	122.3	130.2	130.1
Outside United States										
Europe	130.1	119.4	116.8	93.1	92.8	63.1	11.5	10.7	11.0	2.3
Africa	33.9	41.2	44.9	43.6	38.6	33.8	38.1	35.5	23.2	25.5
Southeast Asia	4.9	6.1	18.3	5.6	—	—	—	—	—	—
Middle East	—	—	5.4	5.6	5.9	6.2	9.1	9.1	12.6	14.0
Latin America	—	—	—	—	—	15.5	20.8	23.1	19.5	19.5
Total Outside United States	168.9	166.7	185.4	147.9	137.3	118.6	79.5	78.4	66.3	61.3
Total Crude Oil Production	289.0	288.1	310.4	264.9	252.6	237.0	203.0	200.7	196.5	191.4
Net Natural Gas Liquids Production										
United States	149.6	141.6	133.8	138.2	130.8	125.9	132.2	134.8	137.5	135.4
Europe	13.0	6.3	.2	.2	.3	.3	.3	.3	.3	.2
Latin America	—	—	—	—	—	1.8	2.3	2.3	2.4	2.6
Total Natural Gas Liquids Production	162.6	147.9	134.0	138.4	131.1	128.0	134.8	137.4	140.2	138.2
Total All Liquids	451.6	436.0	444.4	403.3	383.7	365.0	337.8	338.1	336.7	329.6

Net Natural Gas Production					Millions of Cubic Feet Daily					
United States	943	1,072	1,130	1,159	1,247	1,312	1,433	1,481	1,534	1,566
Europe	554	485	419	184	133	125	116	94	85	58
Canada	—	1	—	—	—	—	—	—	—	—
Latin America	—	—	—	—	—	18	21	28	34	41
Total Natural Gas Production	1,497	1,558	1,549	1,343	1,380	1,455	1,570	1,603	1,653	1,665

Net Oil and Gas Acreage					Millions of Acres					
United States	9.2	6.2	6.1	6.0	6.6	7.2	7.2	6.8	5.8	5.4
Canada	2.2	2.7	2.6	2.1	3.2	3.4	3.5	3.2	2.8	2.2
Latin America	15.9	18.1	20.3	4.7	3.6	12.2	13.0	5.8	3.3	.7
Europe	2.6	3.0	1.4	1.0	1.4	1.5	1.5	1.4	1.3	1.2
Africa	7.0	9.7	15.3	6.9	7.2	8.0	13.2	9.9	13.8	8.4
Middle East	—	—	—	—	1.7	1.8	3.0	3.0	2.9	13.8
Southeast Asia	12.4	5.9	5.3	10.2	25.0	28.6	32.1	37.3	31.0	38.9
Australia and New Zealand	2.2	1.6	22.5	23.8	23.7	1.5	5.3	6.1	6.0	6.3
Total Net Oil and Gas Acreage	51.5	47.2	73.5	54.7	72.4	64.2	78.8	73.5	66.9	76.9

Operating Summary

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Oil and Gas Wells					Net Wells					
United States										
Oil	6,233	6,104	6,141	6,210	6,202	6,191	6,184	5,806	5,795	6,004
Gas and condensate	2,237	2,185	2,164	2,132	2,129	2,122	2,086	2,006	1,945	1,936
Outside United States										
All wells	116	100	79	105	91	82	267	262	249	310
Total Oil and Gas Wells	8,586	8,389	8,384	8,447	8,422	8,395	8,537	8,074	7,989	8,250
Well Completions										
United States										
Exploratory	21	10	6	5	18	44	53	38	37	21
Development	209	118	94	134	161	172	136	156	86	70
Outside United States										
Exploratory	24	32	20	14	13	21	24	23	19	20
Development	12	11	3	6	8	12	16	9	4	18
Total Well Completions	266	171	123	159	200	249	229	226	146	129
Petroleum Products										
Refinery Capacity					Thousands of Barrels Daily					
United States										
Crude oil	425	302	323	323	323	408	408	404	404	399
Natural gas liquids	176	176	186	186	186	165	165	165	165	165
Outside United States										
Crude oil	—	—	—	—	—	—	6	4	4	24
Total Refinery Capacity	601	478	509	509	509	573	579	573	573	588
Refinery Runs										
United States										
Crude oil	262	287	302	297	318	368	373	395	386	371
Natural gas liquids	159	153	138	153	142	133	148	147	156	155
Outside United States										
Crude oil	—	—	—	—	—	2	1	2	3	8
Total Refinery Runs	421	440	440	450	460	503	522	544	545	534
Petroleum Products Sold										
United States										
Automotive gasoline	214	220	250	237	272	304	286	299	323	311
Aviation fuels	19	24	27	26	25	24	30	27	27	27
Distillates	81	82	82	72	87	99	100	95	101	98
Liquefied petroleum gas	106	100	92	119	101	97	92	91	111	106
Other products	40	32	32	37	43	31	33	41	43	41
Total United States	460	458	483	491	528	555	541	553	605	583
Outside United States (including exports)	49	50	33	41	49	56	60	84	72	88
Total Petroleum Products Sold	509	508	516	532	577	611	601	637	677	671
Marketing Outlets (in thousands)	12.8	13.4	13.6	14.8	15.6	17.7	18.6	21.2	23.7	24.4

Management and Board of Directors Changes

In April 1980, W. F. Martin, whose normal retirement date is April 1, 1982, relinquished his responsibilities as the company's chief executive officer, but remained chairman of the board of directors. Wm. C. Douce, the company's president and chief operating officer for six years, was elected president and chief executive officer.

In June 1980, the company's operating and most of the staff organizations were realigned under four executive vice presidents. The realignment also changed the responsibilities of several other executives.

L. H. Johnstone, formerly executive vice president chemicals, was elected executive vice president and assistant to the president.

C. M. Kittrell, executive vice president, previously responsible for the petroleum products operations, assumed responsibility for all support staffs, except financial, general counsel and corporate planning and development.

R. G. Wallace, formerly senior vice president, was elected executive vice president with responsibility for petroleum products and chemicals operations, and Applied Automation, Inc., a Phillips subsidiary manufacturing high-technology instruments.

C. J. Silas, previously senior vice president within the natural resources operations, was elected executive vice president with responsibility for energy resources activities, which include exploration and production, minerals, and gas and gas liquids.

Glenn A. Cox, formerly vice president of management information and control, was elected executive vice president with responsibility for all corporate financial matters and real estate and insurance.

R. G. Askew, senior vice president formerly responsible for several divisions of the chemicals business, was named senior vice president with responsibility for the company's chemicals operations.

Gordon D. Goering, formerly vice president of refining, was elected senior vice president with responsibility for the petroleum products operations.

L. M. Rickards, formerly vice president North America exploration and production, was elected senior vice president with responsibility for the petroleum exploration and production operations.

Edwin Van den Bark, a senior vice president, was elected to the newly created post for technology and planning in exploration and production.

K. L. Smalley, formerly manager petrochemicals, was elected vice president in charge of the minerals operations.

Paul W. Tucker, vice president, continues as head of gas and gas liquids operations. As a result of the restructuring, the company's gas and gas liquids business has become a separate operation.

Ray G. Steiner, formerly manager of planning and budgeting for petroleum products, was elected vice president corporate services.

Other Changes

In July 1980, W.W. Dunn, formerly vice president Latin America-Asia exploration and production, was elected vice president exploration. Also, Richard I. Robinson, formerly manager of refining, was elected vice president of refining.

In October 1980, J. W. Davison, formerly vice president of research and development, was elected senior vice president with responsibility for planning and development following the death of LeRoy Culbertson. Culbertson had served the company for 41 years and played a key role in the company's planning and development organization and its gas and gas liquids activities.

C.F. Cook, formerly manager of research and development's petroleum, chemicals and energy processing division, was elected vice president of research and development.

C.H. Trotter, vice president of corporate management services, retired Jan. 1, 1981. He was a Phillips employee for 43 years.

Owen Thomas, a vice president in the company's exploration and production operation, retired Feb. 1, 1981. He was a Phillips employee for 42 years.

Directors

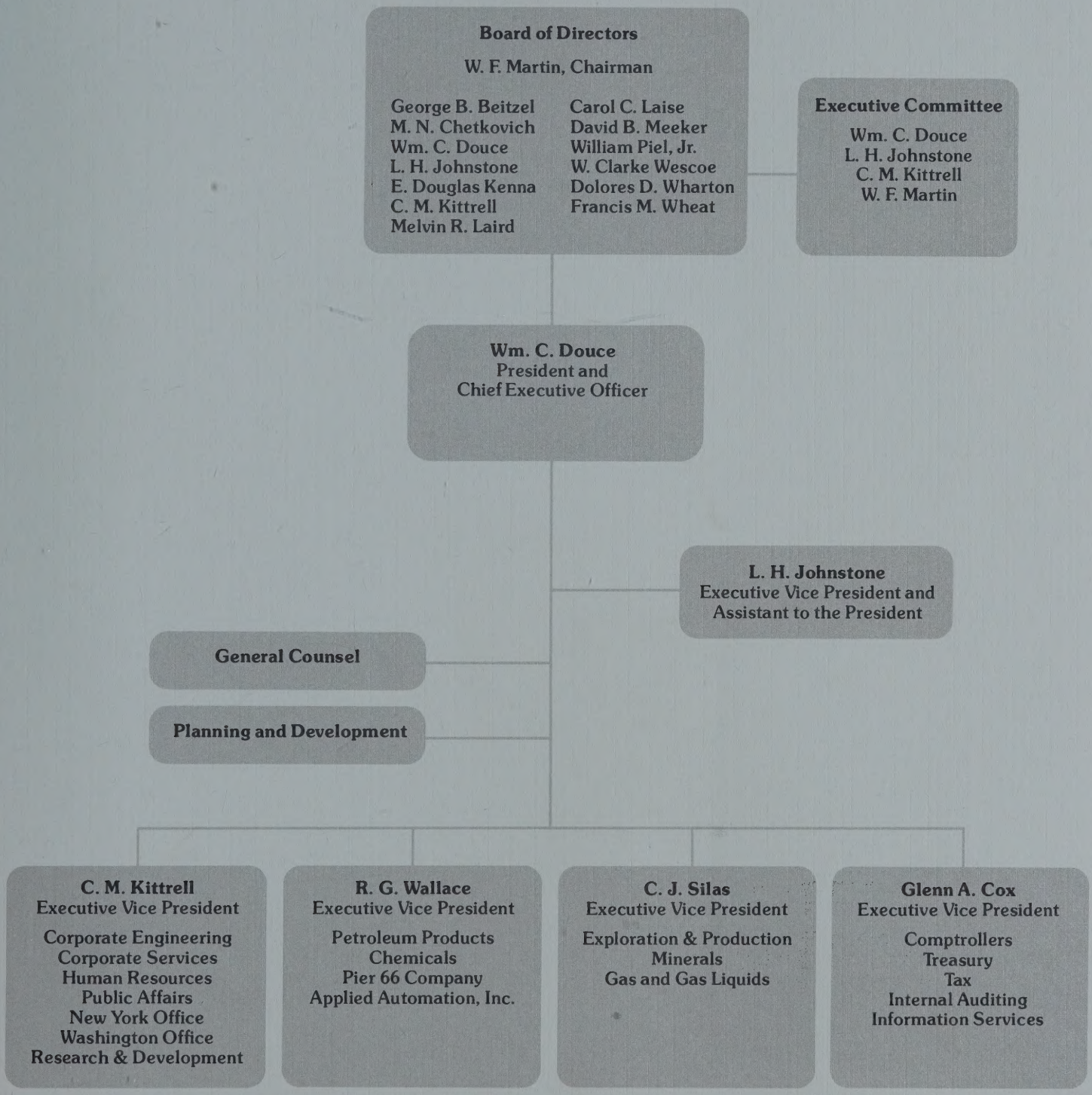
On July 1, 1980, George B. Beitzel was elected to Phillips board of directors. He is a senior vice president and a director of International Business Machines Corporation.

On July 19, 1980, J. Lucian Smith, a member of Phillips board since Nov. 1, 1979, died. He was the retired president and chief operating officer of The Coca-Cola Company.

On Jan. 1, 1981, W. A. Roberts ended his service as a director upon retirement as an employee of the company. Roberts was a Phillips executive vice president. He was a Phillips employee for 43 years and a member of Phillips board since April 24, 1969.

As of March 1, 1981, Phillips board consisted of 14 directors. Four directors are employees and officers of the company and 10 are not employees.

Executive Management



PHILLIPS PETROLEUM COMPANY
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